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Organizational strategies in the context of legitimacy loss: Radical versus gradual responses to disclosed corruption

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**ORGANIZATIONAL STRATEGIES IN THE CONTEXT OF LEGITIMACY LOSS:
RADICAL VERSUS GRADUAL RESPONSES TO DISCLOSED CORRUPTION**

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ORGANIZATIONAL STRATEGIES IN THE CONTEXT OF LEGITIMACY LOSS: RADICAL VERSUS GRADUAL RESPONSES TO DISCLOSED CORRUPTION

Abstract

How do organizations respond to the loss of legitimacy in the context of disclosed corruption, and what drives the particular responses adopted? In this paper, we study the organizational strategies of three multinational companies (MNCs) before, during and after legitimacy loss due to disclosed organizational corruption. We explore why some MNCs exceed regulatory expectations and choose radical strategies that substantially influence their environment by defining a new benchmark of anti-corruption practices, while others follow a more gradual approach. We build on the concept of legitimacy in institutional theory and focus on three strategies that organizations tend to adopt to regain legitimacy: isomorphic adaptation, moral reasoning and strategic manipulation. Based on our empirical study, we suggest that when a transgression is accompanied by a strong legitimacy shock, transgressors are likely to see no alternative but to react both radically and instantly. We identify two distinct extremes of strategic manipulation: decoupling and substantial influence.

Keywords

Corporate social responsibility, corruption, institutional environment, organizational response, legitimacy, reintegration, transgression

INTRODUCTION

Research on organizational corruption has focused mainly on the antecedents of this phenomenon (Ashforth and Anand, 2003; Finney and Lesieur, 1982; Simpson, 2002; Staw and Szwajkowski, 1975; Sutherland, 1949). More recently, scholars have started to examine how organizations respond after the disclosure of corruption (Pfarrer et al., 2008; Bertels et al., 2014). In particular, Pfeffer et al. (2008) provide valuable insights into how corrupt organizations can become ‘reintegrated’ after the disclosure of corruption. Reintegration is defined as a process by which organizations repair their relationships with key internal and external stakeholders when these have been damaged by acts of wrongdoing (Goodstein et al., 2014). Pfeffer et al. (2008) conceptualize a four-stage reintegration process and argue that passing through these stages (discovery, explanation, penance, rehabilitation) successfully may increase the speed and likelihood of reintegration.

While we acknowledge the contribution of Pfeffer et al. (2008), their normative model is limited to outlining what an ideal process of reintegration should look like, rather than describing what actually happens or explaining variations across transgression cases. Second, the authors look at stakeholder-driven processes and focus primarily on the communicative responses to stakeholder demands, and thereby neglect more firm-driven strategies and observable organizational changes regarding transgression controls. Bertels et al. (2014) empirical study of reintegration avoids the normative stance and achieves a more in-depth scrutiny of organizational actions, yet only focuses on stakeholders associated with the legal system. In addition, both of these reintegration models focus on rational reintegration processes at the expense of responses driven by emotions like shame or embarrassment.

The quest for legitimacy is commonly identified as a key driver for organizations to respond to demands from within their environment and to become reintegrated (Scherer and Palazzo, 2007; Greenwood et al., 2011; Meyer and Rowan, 1977). Legitimacy, i.e., the social ac-

ceptance of business organizations and their activities, is based on a “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate” (Suchman, 1995: 574). A lack of legitimacy impedes an organization’s access to resources and support from important constituents (Ashforth and Gibbs, 1990). Institutional theorists have discussed a range of response strategies to manage legitimacy demands (Scherer et al., 2013; Oliver, 1991; Suchman, 1995). Although previous literature acknowledges that transgressions, crises and routine failures lead to concerns about legitimacy (see, e.g., Scherer et al., 2013: 262; Meyer and Rowan, 1977; Ashforth and Gibbs, 1990), we need to know more about how and why transgressions induce organizations to adopt legitimacy strategies over time (see Pfarrer et al., 2008: , as problematized above).

We therefore focus on legitimacy strategies that aim both to restore organizational legitimacy after involvement in corruption cases and facilitate reintegration with the institutional environment (or with multiple stakeholders, see Sethi, 1979; Shapiro, 1991; Pfarrer et al., 2008). In particular, we focus on MNCs as a prototype of large and powerful organizations facing exceptional challenges in the selection of adequate response strategies due to the multitude of demands across various institutional environments. Understanding this process is not only crucial for further developing theory as outlined above, but also matters to practitioners: Corruption is still endemic in MNCs despite the fact that many MNCs have formulated anti-corruption policies and parts of the institutional environment have given priority to the fight against corruption over the last few decades. For example, Siemens had established anti-corruption policies and was already a member of Transparency International (TI) and the UN Global Compact (UNGC) before the disclosure of widespread organizational corruption in 2006 to 2008 (Gebhardt and Müller-Seitz, 2011; OECD, 2012; GibsonDunn, 2013). After the disclosure, however, it became evident that the company policies had not been sufficiently embedded within organizational structures and processes. In view of the above, the main re-

search questions underlying this study are: *How and why do organizations respond to the loss of legitimacy in the context of disclosed corruption?*

Our purpose is to contribute to the literatures on organizational corruption and on organizational responses to legitimacy crises of multinational companies. In particular, we aim not only to theorize about the commonalities in organizational responses to transgressions but also to better understand the factors that explain variance. Our goal is hence twofold: 1) to identify and theorize a common set of legitimacy strategies in the context of transgressions, and 2) to describe and explain the variance in temporality, sequence and extent of transgressions and organizational responses. Consequently, we generate our theory inductively and apply a longitudinal comparative case-study design focusing on three MNCs – ABB Ltd., Daimler AG and Siemens AG – engaged in cases of transnational corruption in the recent past.

We find extensive commonalities in the legitimacy strategies of our case firms, especially *before* and *after* the disclosed transgression. However, we also find substantial variance *during* the transgression disclosure with regard to the timing, sequence and extent of legitimacy strategies due to specific combinations of transgression and reintegration process characteristics. Based on these findings, we first theorize on the commonly observed shift from ‘decoupling’ to what we call a ‘substantial influence’ strategy, i.e., radically developing and implementing internal corruption controls, as well as promoting new practices externally as a benchmark in the field. Second, we explain why in cases of legitimacy shock and strong emotional involvement, the transgressor tends to focus directly on ‘substantial influence’ to regain legitimacy. In the absence of a shock, we suggest that elements of ‘decoupling’ may initially persist, and reintegration tends to follow a gradual process as suggested by existing models (Pfarrer et al., 2008; Bertels et al., 2014); repeated regulatory pressure appears necessary to trigger substantial organizational changes and elements of a ‘substantial influence’ strategy. Third, we argue that it is necessary to distinguish two variants of ‘strategically manipulating’

the institutional environment: (1) ‘decoupling’ from and (2) ‘substantially influencing’ institutional demands. Such demands may, for example, stem from regulatory authorities, business partners, government officials or societal groups. Finally, we discuss the implications of applying multiple versus single strategies in regaining legitimacy.

INSTITUTIONAL THEORY PERSPECTIVES ON TRANSGRESSIONS, CORRUPTION CONTROLS AND LEGITIMACY STRATEGIES

Organizational corruption and changes in the institutional environment

Corruption can be generally defined as the ‘misuse of an organizational position or authority for personal gain or organizational (or sub-unit) gain’ (Anand et al., 2004: 40). In line with existing studies on corruption from the institutional theory perspective (Misangyi et al., 2008; Gebhardt and Müller-Seitz, 2011), we refer to ‘misuse’ not only as deviations from regulatory norms, but also deviations from accepted social norms and/or cognitive elements. We focus on systemic corruption at the level of the organization (see Ashforth et al., 2008: 673) and restrict our analysis to transnational cases of corruption illustrating the heterogeneous demands modern organizations face.

Regulatory sanctions for transnational corruption are a recent phenomenon. For a long time, existing legislation on, e.g., cases of bribery extending beyond national borders was rarely enforced (GibsonDunn, 2013; Weismann et al., 2014). The Foreign Corrupt Practices Act (FCPA) (passed in 1977 and amended in 1988), a US law forbidding bribery of foreign public officials and requiring anti-corruption accounting rules for firms listed at the New York Stock Exchange (NYSE), has been in existence for more than three decades. However, the US Securities and Exchange Commission (SEC) and the Department of Justice (DOJ) have only recently started to enforce it extensively (GibsonDunn, 2013). There are currently at least 78 corporations under investigation for possible FCPA violations and a total of \$3.74 billion has

been paid by 58 companies to settle corruption charges (Wayne, 2012). In the meantime many other countries have enacted similar laws (Nichols, 2012: 362).

Besides regulatory changes, the fight against corruption also involves normative and cultural-cognitive changes. Various international organizations such as the Organization for Economic Cooperation and Development (OECD) and the United Nations (UN) have established international conventions (e.g., the OECD Convention on Combating Bribery of Foreign Public Officials or the UN Convention against Corruption) that promote transnational anti-corruption norms without, however, being legally enforceable as such. Similarly, multi-stakeholder initiatives (e.g., the UNGC or the World Economic Forum's Partnering Against Corruption Initiative) and non-governmental organizations such as TI provide guidance on the fight against corruption (for overviews of changes in the institutional environment to fight corruption, see: Gebhardt and Müller-Seitz, 2011; Hess, 2012). Despite these developments, however, there is no 'shortage' of corruption related transgressions involving MNCs.

Disclosed transgressions and organizational responses

A transgression generally refers to an unethical act such as corruption that places its stakeholders at risk (Coombs, 1995). We look at – disclosed – corrupt behavior as one particular type of an unethical act, or transgression (see also Pfarrer et al., 2008). Pfarrer et al. (2008) conceptualize a four-stage reintegration process and argue that passing through these stages successfully may increase the speed and likelihood of reintegration. A stage is passed when stakeholders concur about 1) what happened (discovery), 2) why it happened (explanation), 3) what punishment is appropriate (penance), and 4) what organizational changes have been implemented to prevent future misconduct. Bertels et al. (2014) build on these four stages using a single-case study approach. As these two models apply a legitimacy approach in looking at organizational reintegration, they appear particularly relevant for our study. In contrast, other models of reintegration focus, for example, on trust (Gillespie and Dietz, 2009; Gillespie et

al., 2014), restorative justice (Goodstein and Butterfield, 2010) or the micro level of analysis (Gromet and Okimoto, 2014). Further knowledge about organizational responses in the context of legitimacy loss seems necessary for the following reasons.

First, the model of Pfarrer et al. (2008) focuses on an ideal process of reintegration and is explicitly normative. It assumes that transgression responses can be separated into distinct stages that can be passed through in a certain linear sequence (Pfarrer et al., 2008: 740). In contrast, the model falls short when it comes to explaining deviations from the ideal, such as varying temporalities, sequences and extents of transgressions and organizational responses that can be observed in in-depth case studies. In today's globalized world with organizations facing varying jurisdictions, stakeholder demands and interests one may wonder whether one reintegration stage is typically fully completed before progressing to the next. For example, for an MNC with offices around the world, disclosed bribery may induce several countries and jurisdictions to investigate the transgressor at different points in time. Hence, transgression response stages such as 'discovery' and 'penance' may occur in alternating waves or cycles rather than in a linear order. Furthermore, the transgressor may implement, e.g., monitoring and due diligence processes that fall under the last 'rehabilitation' stage, which may then trigger further 'discovery'. Hence, it even seems unlikely that certain reintegration stages can be completed at all, e.g., that all facts of a transgression can be 'discovered' or the transgressor can be fully 'rehabilitated' vis-à-vis all involved stakeholder groups. While Pfarrer et al. (2008) briefly refer to timing as a moderator in the transgression response process, we need to know more about how and why temporalities vary across cases.

Second, Pfarrer et al. (2008) look at reintegration as a process that is primarily, if not exclusively, stakeholder-driven. The authors expect firms to respond in full accordance with the stakeholder demands and assume that concurrence among stakeholders, e.g., about the transgression and its key elements, is likely (Pfarrer et al., 2008: 736). In contrast, they neglect the

possibility of more firm-driven actions in, for example, cases when firms act proactively or respond deliberatively to heterogeneous stakeholder demands. While Bertels et al. (2014) avoid the normative stance in their reintegration model and consider in greater depth demonstrated firm actions, they restrict their analysis to the role of only one particular type of stakeholder – governments (i.e., regulators, prosecutors, and courts) – in supporting organizational reintegration efforts. Consequently, they only look at regulatory (civil and criminal) sanctions leaving mostly unaddressed the role of social sanctions as defined above.

Third, both reintegration models presented above focus on rational reintegration processes based on economic calculations (e.g. Hart, 1995). Business firms may calculate ex ante the control costs of compliance (including opportunity costs for loss of orders or delayed businesses due to anti-corruption policies) on the one hand and costs of noncompliance (including anticipated sanctions for disclosed transgressions and legitimacy loss) on the other. After a transgression, Western enforcement agencies such as the SEC and DOJ (in the US) play a key role in enforcing anti-corruption regulations, and impose severe monetary sanctions and compliance costs on transgressors. For example, enforcing the FCPA often entails out-of-court settlements with US authorities (Schwarz, 2011). The Deferred Prosecution Agreements (DPAs), a proceeding that is closed only after the successful completion of the agreed terms, is a popular arrangement in such a settlement (see e.g. Gebhardt and Müller-Seitz, 2011; Schwarz, 2011; Bertels et al., 2014). Based on the same economic calculation, however, rational transgressors may still be tempted to avoid implementation costs by introducing only gradual changes. Beyond such rational responses, Pfarrer et al. (2008: 739) only occasionally include references to emotions such as shame. If they do so, they focus on ‘shaming’ from the stakeholder perspective, rather than discussing the organizational response of ‘feeling shame’. Similarly, Bertels et al. (2014: 355) mention only once that transgressors “would be very embarrassed”, without outlining the organizational response to such emotions.

In line with institutional theory (see Scherer et al., 2013; Pache and Santos, 2010; Greenwood et al., 2011), not only expected sanctions and compliance costs, but also the consistency of societal (anti-) corruption expectations is likely to influence organizational response. For example, Western anti-corruption and compliance demands may become more urgent for a transgressor than bribery demands by a public official in a developing country. Lange (2008) distinguishes two major types of sanctions in the context of a transgression, which we draw on in this paper: regulatory sanctions on the one hand, and social sanctions on the other. Regulatory sanctions include, for example, the disgorgement and penalty payments listed in the settlement agreements plus other legal expenses, e.g., for lawsuits, lawyers or consultants. In contrast, social sanctions primarily refer to the extent of negative press coverage that transgressors receive in the course of disclosure, settlement, and reintegration.

Legitimacy strategies in anti-corruption environments

From an institutional point of view, MNCs seek to portray themselves as legitimate actors by incorporating institutional elements of internal and external origin (Kostova et al., 2008). When an organization's actual operations and institutional expectations are mismatched, the organization needs to adapt to the perceptions of its constituents. Incorporating global institutional demands relating to anti-corruption, however, poses serious challenges to MNCs: while the enforcement of legislation against transnational corruption originates mainly in developed Western countries, many developing countries in which MNCs operate still present a high corruption risk (TI, 2012). Consequently, MNCs can easily become involved in corrupt practices along their supply chains, thus diminishing a corporation's legitimacy.

Scholars have distinguished three broadly defined types of legitimacy (see Suchman, 1995). (1) Pragmatic legitimacy "rests on the self-interested calculations of an organization's most immediate audiences" (Suchman, 1995: 578). It can be maintained or regained when the most important constituents expect to benefit from the organization. (2) Moral legitimacy is based

on normative evaluations of the organization and is granted if the organization's behavior is considered the 'right thing to do' (see also Aldrich and Fiol, 1994). (3) Cognitive legitimacy, in turn, is distinct from evaluation in that it refers to the "mere acceptance of the organization as necessary or inevitable based on some taken-for-granted cultural account" (Suchman, 1995: 582). How organizational responses to legitimacy loss shift over time and why such responses may differ across organizations, depending on which types of legitimacy are threatened, remains largely unaddressed (see Pfarrer et al., 2008; Bertels et al., 2014).

Rather than referring to reintegration stages (Pfarrer et al., 2008), we decided to focus on legitimacy strategies, considering that the latter come with the advantage of not prescribing a distinct and linear sequence of application. Scholars have identified several types of legitimacy strategies; our initial analysis was guided by the following typology, developed for sustainability issues in complex institutional environments (Scherer et al., 2013): *isomorphic adaptation*, *moral reasoning* and *strategic manipulation* (see also: Driscoll, 2006; Oliver, 1991; Scott, 2008; Suchman, 1995). By using an *isomorphic adaptation* strategy, the organization adapts its organizational practices to social expectations – e.g., an MNC may choose to report more extensively on corruption in its annual reports if it perceives that this is an emerging practice in its industry or the country in which it operates. By using a *moral reasoning* strategy (Palazzo and Scherer, 2006; Scherer et al., 2013), organizations may enter into a discourse with focal stakeholders and societal groups about the acceptability of the organization's status quo and behavior. For example, discussing with peers ideas on how to fight corruption in multi-stakeholder initiatives like the UNGC can be part of a moral reasoning strategy.

Third, companies may use a *strategic manipulation* strategy, which involves influencing how its constituents perceive the way in which the organization appears to benefit them (Scherer et al., 2013; Oliver, 1991). The key instruments associated with manipulation strategies are strategic public relations and impression management tactics that involve advertising campaigns,

dissemination of (misleading) information or lobbying (Oliver, 1991; Scherer et al., 2013; Fombrun, 2001). Arguing that organizations that use a manipulation strategy do not change the practices criticized by some of their stakeholders, scholars highlight the parallels of this strategy with the concept of decoupling (Scherer et al., 2013: 266) (see also Palazzo and Richter, 2005; Weaver et al., 1999). ‘Decoupling’ refers to a gap between formal structures and actual practices (Meyer and Rowan, 1977). The application of decoupling as a strategy to respond to conflicting institutional demands assumes that organizational structures and activities can be protected from evaluation (Meyer and Rowan, 1977: 357). The recent wave of disclosed corruption at MNCs involving large-scale investigations (Gebhardt and Müller-Seitz, 2011) suggests that protection from evaluation is not always possible.

Relating legitimacy strategies to corruption control types

To be able to determine which legitimacy strategy a firm applies, we need to identify and categorize organizational practices in the context of corruption. The following literature proved helpful in this regard. Lange (2008) recently merged two streams of literature – one on organizational and the other on corruption control – to conceptualize an ‘Organizational Corruption Control Circumplex’ (OCC). Therein, he distinguishes social/cultural controls from administrative controls (see left column of Table 1). ‘Controls’ in this context refer to organizational mechanisms to fight corruption. While the former type of controls are transmitted by values and norms in organizations, the latter type focuses on formal structures and processes. Regarding legitimacy strategies, we may roughly associate a focus on administrative controls with an ‘isomorphic adaptation’ strategy, and a focus on social/cultural as well as interactive controls with a ‘moral reasoning’ strategy. If, however, a company implements only a fractional set of administrative controls without any elements of social/cultural controls, a ‘decoupling’ strategy seems likely to be at play (see Scherer et al., 2013).

In addition, given that our paper deals with corruption cases that included settlements with the SEC, we also considered the guidelines for ‘Effective Compliance and Ethics Program[s]’ of the US Sentencing Commission (USSC, 2010: , §8B2.1.) and categorized them into social/cultural versus administrative controls (Lange, 2008). Finally, as we shall explain later, our empirical analysis revealed the need to further consider an interactive and/or voluntary type of organizational measure, e.g., as depicted in the corporate citizenship assessment model (CC) by Baumann-Pauly and Scherer (2013). This type captures corruption controls that go beyond the elements of the previous two frameworks and focus on collaborative efforts of organizations with the intent to change anti-corruption practices not only within the organization but also in its institutional environment. As such, this type proved necessary to fully capture the organizational practices in the context of a ‘substantial influence’ strategy that emerged from our analysis. Table 1 displays the synthesis of corruption controls resulting from the three presented frameworks and relates those controls to legitimacy strategies (left part of Table 1). Depicting the three types of organizational corruption controls in the left column, we list key organizational corruption control elements of each type in the middle column; the original literature and practitioner sources (OCC, USSCG, CC) are listed as bullets beneath each element. Note that Pfarrer et al. (2008) barely discuss actual organizational corruption controls, except for single examples in the rehabilitation stage, which we also referenced in Table 1.

----- Insert Table 1 about here -----

To sum up, institutional theory scholars have acknowledged that legitimacy concerns arise particularly when routines fail and a transgression or crisis occurs (Scherer et al., 2013: 262; Meyer and Rowan, 1977; Ashforth and Gibbs, 1990). However, how such events trigger particular legitimacy strategies in the context of a transgression over time remains largely unaddressed (Pfarrer et al., 2008). Our aim is, hence, to close this gap by exploring how distinct

elements of transgressions influence the dynamics, sequence and combination of organizational strategies in the context of legitimacy loss and which factors play a crucial role along the reintegration process. Having shed light on these questions, we will theorize a generalized process model of organizational strategies in the context of legitimacy loss.

METHODS

Research design and sampling

We applied a multiple dynamic case design to compare and interpret our findings, which cover the period 2012–2014, across our target firms (Yin, 1984), as well as over time and space (Gerring, 2007), and aggregated data where appropriate. In selecting our sample, we followed the sampling approach (see Strauss and Corbin, 1998) of choosing ‘extreme’ cases wherein the phenomenon of interest (here, the disclosed corruption transgression) is ‘transparently observable’. On the basis of our sampling approach, we selected the following companies: Siemens AG (Siemens), Daimler AG (Daimler) and Asea Brown Boveri Ltd (ABB). In all cases we were able to interview firm representatives towards the end of the regulatory proceedings (the period in which the transgressors operate under the DPA or a similar settlement with public authorities, as defined above) and after the termination of these regulatory obligations.

We selected cases of MNCs implicated in recent transnational transgressions, which differed in key aspects, most notably concerning subsequent regulatory and social sanctions. Our assumption was that the analysis of different transgressions of multiple case firms would enable us to develop theory about the reintegration process with regard to the sequence, combination and extent of applied legitimacy strategies of large, prominent and powerful organizations facing heterogeneous expectations in their environment (see Doz, 1996; Pfarrer et al., 2008). At the same time, we aimed to control for factors that are unrelated to the transgression characteristics: We focused on firms from the high technology manufacturing sector, generally known to face moderate to high corruption risks (TI, 2011). Furthermore, we chose only

MNCs headquartered in Switzerland or Germany. Both countries are perceived to have similarly low corruption risks (TI, 2012), have similarly strict anti-corruption legislation and are at an advanced stage of implementing anti-corruption measures that derive from the OECD Convention Against Corruption (see OECD, 2012). To gain a more global perspective on the corruption phenomenon, we expanded our data collection to several other countries. We focused on Asia-Pacific, as this region includes several high corruption-risk countries that have been involved in the corruption schemes of our transgressors (see TI, 2012). Furthermore, this region allows for smooth data access thanks to infrastructure and use of English language.

Case context

Siemens is among the leading technology companies worldwide, headquartered in Munich and Berlin, Germany, and operating with four sectors (energy, industry, infrastructure & cities, and healthcare – until a slight restructuring in September 30, 2014) in more than 190 countries (Siemens, 2013). Siemens has a total of around 370,000 employees and its annual turnover generally exceeds €80 billion (Siemens, 2015). According to the SEC’s complaint, “between March 12, 2001, and September 30, 2007, Siemens created elaborate payment schemes to conceal the nature of its corrupt payments, and the company’s inadequate internal controls allowed the conduct to flourish” (SEC, 2008b). Infractions covered various sectors and projects including, for example, metro transit lines in Venezuela, power plants in Israel, refineries in Mexico, mobile telephone networks in Bangladesh or medical devices in Vietnam, China and Russia (for a detailed list, see SEC, 2008a: 13-32). Siemens paid “more than \$1.4 billion in bribes to government officials in Asia, Africa, Europe, the Middle East, and the Americas [and] the pattern of bribery [...] was unprecedented in scale and geographic reach” (SEC, 2008b). The SEC complaint further specifies that the MNC used third parties to obscure the purpose for, and the ultimate recipient of, thousands of cash payments, which employees sometimes transported in suitcases across international borders. Like the transgres-

sion itself, also the institutional sanctions for Siemens were unprecedented. Table 2 provides a comparative overview of regulatory and social sanctions at our case firms.

----- Insert Table 2 about here -----

Daimler is a multinational automotive corporation with headquarters in Stuttgart, Germany, and locations on every continent; it focuses on Europe, Asia and North America. The company has five divisions, of which the two most important are Mercedes-Benz Cars and Daimler Trucks (Daimler, 2013). Daimler's annual turnover of over €100 billion (Daimler, 2013) exceeds that of Siemens, although the company has fewer employees (around 275,000) and operates in fewer countries. According to the SEC, "Daimler paid at least \$56 million in improper payments over a period of more than 10 years. The payments involved more than 200 transactions in at least 22 countries. Daimler earned \$1.9 billion in revenue and at least \$90 million in illegal profits through these tainted sales transactions, which involved at least 6,300 commercial vehicles and 500 passenger cars" (SEC, 2010b). Table 2 outlines the high regulatory and rather moderate social sanctions Daimler faced.

ABB is one of the leading firms worldwide in energy and automation technologies. The company has its headquarters in Zurich, Switzerland, and operates in more than 100 countries (ABB, 2013). ABB has around 146,000 employees and an annual turnover of around \$40 billion (ABB, 2013). On September 29, 2010, the SEC charged "ABB Ltd with violations of the Foreign Corrupt Practices Act (FCPA) for using subsidiaries to pay bribes to Mexican officials to obtain business with government-owned power companies, and to pay kickbacks to Iraq to obtain contracts under the U.N. Oil for Food Program" (SEC, 2010a). According to the SEC "ABB's subsidiaries made at least \$2.7 million in illicit payments [...] to obtain contracts that generated more than \$100 million in revenues for ABB" (SEC, 2010a). ABB faced lower regulatory and social sanctions compared to Siemens and Daimler as noted in Table 2.

Data collection and analysis

Following established guidelines (Glaser and Strauss, 1967), we analyzed our data during the collection process. To reduce biases wherever possible, we use interview as well as documentary data, both of which we triangulated by incorporating various perspectives (Flick, 1992; Eisenhardt, 1989) as summarized in Table 3. We conducted 40 interviews with representatives of the case firms and third parties like lawyers, judges, auditors, NGOs and officials in the MNC headquarter and Asia-Pacific region. Interviews typically lasted between 45 and 90 minutes and were transcribed. We selected respondents initially based on their expertise and/or direct involvement in the reintegration process, and later added informants recommended during previous interviews. In addition we analyzed 54 company (annual and/or sustainability) reports, policies and codes of conduct, 16 documents relating to regulatory and criminal proceedings provided by the SEC, the DOJ and the World Bank, as well as 207 press articles on our case firms provided by RepRisk AG (RepRisk, 2013) and other media. Table 3 lists the number of documents per type of source for each company. Given that our interview data spans three years (2012-2014), including repeated interviews with several actors, and our documentary data even covers the period from 2003 to 2014, we have been able to analyze the organizational situation before, during and after the respective corruption transgressions.

----- Insert Table 3 about here -----

At the beginning of our analysis, in 2012, we considered a variety of documentary sources (Yin, 1984), ranging from regulatory proceedings related to the FCPA to company reports and media reports, to form a picture of the corruption. On this basis, we developed the guideline for the first interviews at the companies' headquarters, focusing on what characterized each transgression and on the initial reactions of the transgressors. As regulatory proceedings came to an end in the course of 2013, we gained further insights into the organizational processes of responding to legitimacy loss and observed corporate actions in 'real time'. Such 'real time' changes (e.g., in key personnel or the organizational structures) were addressed in subsequent

interviews. We also drew on these first interviews and documentary data to conduct the first round of open coding (Glaser and Strauss, 1967; Corbin and Strauss, 1990).

In the next step, we turned to academic literature to relate our data to theoretical concepts and frameworks. To develop our data structure, we adhered to recommendations for building grounded theory on the basis of a two-order code scheme (Gioia et al., 2013; Corley and Gioia, 2004; Ravasi and Phillips, 2011). According to this approach, first-order codes reflect as closely as possible the language used by the informant. In contrast, second-order codes are mainly based on the analysis and synthesis of first-order codes. For example, the repeated first-order references to a ‘no choice’ and ‘strong emotional shift’ situation (at Siemens) or (FCPA) monitor ‘pressure’ and ‘intensity’ (at Daimler) helped us identify dominant second-order themes like ‘legitimacy shock’ or ‘external enforcement pressure’ that we incorporated in our emerging data structure. Third, we discussed possible relationships among the themes that had emerged. This process relates to axial coding techniques (Strauss and Corbin, 1998). Figure 1 illustrates the relation between first and second-order codes as well as the overarching themes that we subsequently synthesized.

----- Insert Figure 1 about here -----

These data structuring procedures together with continuous discussions between the authors about reconfigurations of codings are expected to “lend the requisite rigor to the analyses” (Gioia et al., 2013: 22). Additionally, we took into account independent codings of selected data by student assistants, and discussed the emerging themes together with our interpretations in follow-up interviews with respondents from the case firms and incorporated their feedback (see Corbin and Strauss, 1990: 11). Our motivation for this step was to test our confidence in our findings and interpretations (see Gioia et al., 2013: 22).

FINDINGS

We now present the themes and codes of our three cases using representative excerpts from interview and documentary data. These findings informed our process model on organizational strategies in the context of legitimacy loss shown in Figure 2. In order to facilitate the understanding of the case narratives, we here provide a brief overview of the model's elements. We then structure our findings in two parts. In a first section, the focus is on the commonalities of the model. The presentation of individual case-based narratives explaining variance in the chronology and speed of strategy shifts then follows in a second step.

----- Insert Figure 2 about here -----

The process model illustrated in Figure 2 integrates the themes and codes of Figure 1 by putting them in a dynamic context. Regarding commonalities across cases, we found a similar typology of legitimacy strategies at our case firms *before* and *after* the disclosed transgression respectively. Having perceived rising challenges in their institutional environments, firms focused on a decoupling strategy before the transgression was disclosed. They applied elements of isomorphic adaptation and moral reasoning only to a lesser extent (see two boxes and arrow on the left). The focus on decoupling led to the disclosure of corruption (arrow: transgression disclosure). The transgressors lost legitimacy resulting from this disclosure, which led to a strategy shift in the course of the transgression (large central box). However, and crucially, we found that emotional involvement (even to the point of consternation) in the context of legitimacy loss was key to triggering a substantial and sustainable strategy change. After the transgression, 'substantial influence' replaced 'decoupling' in the set of post-transgression legitimacy strategies; moral reasoning and isomorphic adaptation continued (right box).

Beyond such commonalities across cases, we find also substantial variance with regard to the timing, sequence and extent to which the transgressors applied and shifted legitimacy strategies during the transgression (large central box). Three key distinct themes emerged from our

transgressors' corruption cases that help explain such differences: (1) a 'legitimacy shock' (top element of the legitimacy loss box) triggered by a particular 'way' of transgression disclosure, (2) external enforcement pressure, and (3) previous sanctions. As we identified that Siemens was primarily affected by the first, Daimler by the second, and ABB by the third theme, we structure our case findings along these three narratives. Each of these case narratives is accompanied by an individual process timeline (Figures 3a-c) illustrating the varying chronology, speed and intensity of applied legitimacy strategies described below (see Langley, 1999). Finally, Table 4 depicts a selection of representative quotations from our interview and documentary data about the processes described here.

Strategic shift toward substantial influence in the context of legitimacy loss

Before highlighting the individual case narratives, we now focus on the commonly observed strategic shift toward 'substantial influence' after disclosed corruption. This post-transgression strategy emerged inductively from our data and is composed of the two codes '*we do more than we have to*' and '*we want to make sure everybody else does so too*'.

'We do more than we have to'. After the disclosure of corruption at Siemens, the statement of the new CEO Löscher in a 2007 speech "only clean business is Siemens business – everywhere, everybody, every time" (Moosmayer and Winter, 2011: , p. 4) was unequivocally clear and complemented by comprehensive anti-corruption training and whistle-blowing procedures. Besides these social/cultural corruption controls, respondents like the lawyer at Gibson Dunn outlined that Siemens implemented a comprehensive set of administrative controls, including voluntary measures such as a strictly centralized structure of value flows and approval processes, a bonus-malus system to align incentives, and specialized audits in addition to general tasks by the audit department (see also Graeff et al., 2009; Gebhardt and Müller-Seitz, 2011). The Siemens FCPA monitor confirmed that "Siemens has done more than what

regulators both in the US and Germany expected”, a judgment supported by various respondents (see Table 4).

----- Insert Table 4 about here -----

The conclusion of Daimler’s FCPA monitor resembles the one at Siemens: “Daimler AG’s management has in many respects done more than required in a settlement with U.S. institutions (...) Daimler really wants to become world champion in compliance” (see Newswires, 2012). Furthermore, our respondent at the law firm Gibson Dunn mentions that “Daimler, like Siemens, has included voluntarily questions on pressure to perform in anonymous questionnaires”. Even before Siemens and Daimler, ABB installed a set of leading innovative corruption controls, especially social/cultural ones. After its first transgression, ABB displayed the largest scope of anti-corruption reporting among case firms, including a clear zero-tolerance statement, information on training, and the installation of a whistle-blowing procedure. In sum, we observed several instances among our case firms of aiming to ‘over-fulfilling’ the requirements imposed on them by single constituents.

‘We want to make sure everybody else does so too’. In addition, transgressors introduced interactive corruption controls. Siemens launched the Collective Action program that emerged in the context of the 2009 agreement with the World Bank Group, wherein Siemens agreed to co-operate to change industry practices and engage in collective actions to fight fraud and corruption (WBG, 2009). As our document analysis clearly shows, the company’s collective action activities go well beyond the terms of the World Bank agreement. Not only the title of the program “How we can drive Collective Action” (Meyer and Waldschmidt, 2012: 22), but also multiple external parties indicate that the company’s approach is strongly proactive and firm-driven rather than passive and stakeholder-driven. This proactive approach relates to another central 1st order code (see Table 4: ‘we want to make sure everybody else does so too’) as illustrated by the following quote: “[O]ne of our goals is to transport our knowledge and experience towards the outside, make it available to others and build alliances with other market

participants, simply to work together on fair competition” (Siemens, Senior CO, Nov. 2012). Beyond the World Bank agreement, Siemens promoted its new anti-corruption practices, e.g., at international industry, government and NGO meetings (“... every quarter we have what we call a best practice session. Siemens did one in September last year.” TI Malaysia, Apr. 2014) and engages in collaborations with academia. As UNGC LEAD member and repeated speaker at international anti-corruption events, Daimler also displayed efforts to promote its standards beyond organizational boundaries. ABB, although temporarily, participated in the largest number of voluntary initiatives (PACI, TI, UNGC) compared to the other case firms. While we did not find clear evidence whether ABB proactively tried to diffuse its controls, some of ABB’s practices (training, whistle-blowing) became established thereafter.

Strategy shifts and differences in the chronology, speed and intensity of strategies

Siemens’s legitimacy shock and radical response

In the period *prior* to the disclosed transgression at Siemens in 2006 (t_{pre}), Siemens had already installed bureaucratic controls consisting of formal rules, codes and policies to fight corruption. Siemens also displayed certain elements of interactive corruption controls, e.g., by becoming member of TI Germany in 1998 “after the Siemens-management had campaigned for the implementation of the OECD convention” (TI Germany, Dec. 2006) and participating in the UNGC since 2003. However, corruption controls aiming at translating these formal policies and structures into daily practices (e.g., through leadership support, training, a complaints procedure or monitoring) were either rudimentary or lacking: “From 1999 to 2003 (...) the Vorstand was ineffective in implementing controls to address constraints imposed by Germany’s 1999 adoption of the [OECD] anti-bribery convention that outlawed foreign bribery.” (SEC, 2008a: 5). A Siemens Senior CO added in our Nov. 2012 interview that “it was simply lacking awareness for these issues (...) and for consequent action when formalities were not met”. Given such gaps between policies and practices, Siemens was clearly follow-

ing a ‘decoupling’ strategy in t_{pre} . This strategy continued even after the firm’s NYSE listing in 2001 and indications of systemic bribery leading to a settlement with Italian authorities in 2004. Neglecting rising institutional demands and warning signs then led to the transgression.

The transgression disclosure period at Siemens (t_{trans}) primarily started with the massive raid at the company HQ in Nov. 2006. As summarized in Table 2, this raid resulted in unprecedented regulatory and social sanctions at Siemens (see also Figure 3a), and put the organization in a state of shock.

Legitimacy shock. Interviewees at Siemens described that Siemens employees used to read with pride in the media about their technological inventions. All of a sudden, they were confronted with a major public transgression severely challenging all three types of legitimacy (see Suchman, 1995): Siemens’s pragmatic (or regulatory) legitimacy was clearly at risk given the threat of immense regulatory fines, imprisonment and the very survival of the organization. The immense media coverage and criticism also from family and friends triggered an emotional consternation among Siemens staff worldwide, putting the organization’s cognitive legitimacy at risk. In an interview with Siemens Chief CO Josef Winter, the interviewer recapitulated this ‘strong emotional shift from pride to consternation’ after the HQ raid and the arrest of even Winter’s boss: “their company, which they always regarded as a kind of family, lost part of its honor. (...) That has been, says Winter, a shock for all.” (Handelsblatt, Oct. 26, 2010). Finally, given the moral consternation of Siemens staff and the forced termination of TI Germany membership in December 2006, its moral legitimacy was lost. “The proud Siemens AG filed a petition in moral bankruptcy at that time” (Handelsblatt, Oct. 26, 2010).

As direct response to the HQ raid in Nov. 2006 and resulting legitimacy shock, there was a sudden and unprecedented increase in all types of corruption controls shown in Table 1.

“[S]uch a scandal helps and we were at the point where we could only change the course or sink. And in this first step I think we have taken the necessary measures that (...) have helped us, to leave this deep valley of scandal and turn towards a success

story. (...) Then the process of change started, but not gradually, but this compliance system was implemented under brute force.” (Siemens, Senior CO, Nov. 2012)

Referring to the immense speed and substance of change at Siemens, summarized in Figure 3a, the former FCPA monitor at Siemens assessed that “a tremendous act of rehabilitation has occurred within one year”. As regards leadership, Siemens hired Peter Löscher – the first externally promoted CEO in the MNC’s history – as new CEO to manage the transgression. “Within months of my taking over, we replaced about 80% of the top level of executives, 70% of the next level down, and 40% of the level below that. I fundamentally changed how our managing board made decisions. We also worked to streamline and simplify our global operating units.” (Löscher, 2012: 40). Compliance staff increased from around 60 (including part-time) to more than 600 fulltime employees. As outlined above, Siemens additionally engaged in substantial Collective Action activities to promote its new compliance benchmark worldwide. The Siemens case hence outlines a clear and sudden shift from decoupling to substantial influence.

Especially in the first years of its Collective Action program, the MNC exclusively pursued this ‘substantial influence’ strategy by determining fairly independently which types of controls to implement and when (e.g., “how we can drive” Meyer and Waldschmidt, 2012). Only after the new compliance measures had been implemented, and especially since the successful termination of the FCPA monitorship in Dec. 2012 – marking the beginning of the post-transgression period (t_{post}) –, did Siemens begin to include elements of ‘moral reasoning’. The perception that “we first stood under very strong pressure [t_{trans}] ... Then we focused very strongly on roundtable discussions with other market actors [t_{post}]” (Senior CO, Siemens Switzerland, Dec. 2013) illustrates this shift from an exclusive focus on ‘substantial influence’ to including elements of ‘moral reasoning’.

Compared to t_{trans} , the changes we noted in t_{post} were of much smaller scope: Rather than implementing a set of new measures, the company’s main concern was to increase the efficiency

of the implemented compliance system. Another issue in that period was to focus collective actions to a larger extent on particular business requirements than in the past. For example, the company defined measures such as fair competition partnerships between bidders for large contracts or promoting voluntary self-commitment by industry federations to compliance standards (Siemens Annual Report 2012: 30). Respondents stated that targets formulated in our first round of interviews in late 2012 had been largely realized by the time of the second round in late 2013. As a Siemens CO outlined “in several areas where no incidents had been detected in the preceding years, the respective controls and compliance staff had been reduced and the thresholds for projects requiring ‘approval’ (...) had been eased”. Other processes were strengthened during that period, such as the ‘Business Partner Compliance Due Diligence Tool’. While in place since 2008, respondents such as the regional compliance officer for Siemens ASEAN clarified that partner screenings were initially mostly based on Internet searches. In 2014, this process was complemented with on-site checks of business partners:

“In fiscal 2014, we carried out a project to reinforce the effectiveness of our business-partner compliance due diligence process and of management’s assessment of the related compliance risks. Key outcomes of the project include the regular review of business partner portfolios at the Lead Countries and Divisions and on-site compliance checks for selected types of business partners as part of due diligence.” (Siemens Annual Report, 2014)

Synthesis. Siemens managed to achieve early in t_{trans} a 180-degree turn from a ‘decoupling’ strategy marked by an organizational structure of widespread corruption and façade-building to a ‘substantial influence’ strategy marked by an over-fulfillment of institutional expectations and the proactive promotion of its new compliance benchmark worldwide. We identified the reason for this radical shift to be nested in the firm’s legitimacy shock after the extraordinary ‘way’ of disclosing corruption by means of a massive HQ raid. This shock’s strong emotional effect on Siemens employees worldwide triggered the general perception at Siemens that the only chance to recover was to respond radically, substantially and proactively. As Peter Löscher continuously reminded his audience “never [to] miss the opportunities that come from a

good crisis” (Löscher, 2012: 40), adding that Siemens certainly did not miss theirs. After its exclusive focus on a ‘substantial influence’ strategy during early t_{trans} , Siemens increasingly added elements of ‘moral reasoning’ and ‘isomorphic adaptation’ with more and more time passing since the initial legitimacy shock. Regarding the former, Siemens renewed its membership with Transparency International in 2009, fully covered the indicator of the Global Reporting Initiative SO5 on participation in public policy development as of 2011, participated in ‘integrity dialogues’ with external stakeholders from 2013, and introduced integrity awards as well as warnings (‘yellow cards’) as of 2014 (see also Figure 3a). Regarding the latter, Siemens focused on increasing the efficiency of its compliance program, e.g., by slightly easing the previously very strict approval processes or abstaining from a separate board position to manage and oversee compliance.

----- Insert Figure 3a about here -----

Daimler’s gradual response and external enforcement boost

Daimler faced a corruption transgression of similar (geographic) scope to the Siemens affair, involving high regulatory sanctions (see Table 2), yet pursued a significantly different reintegration process. Nonetheless, the MNC finally also shifted toward ‘substantial influence’. The analysis of sanctions at Daimler suggests that pragmatic legitimacy was at risk whereas the other two types of legitimacy were largely unthreatened. We outline in the following that, because the way of disclosing the transgression was far less geared towards the media and social sanctions were mild, Daimler had – and may also have needed – time to make its global workforce aware of the transgression.

At Daimler, corruption controls in the period (t_{pre}), i.e., before the transgression was officially disclosed in a settlement with the SEC on Apr. 01, 2010, were mainly bureaucratic (e.g., formalized rules and policies) and to a limited extend social/cultural or interactive (e.g., participating in voluntary initiatives like the UNGC). Daimler introduced further – at least basic –

measures, as the process chart (Figure 3b) shows. Social/cultural corruption controls were fostered, e.g., through a statement by Dieter Zetsche outlining that “no business deal can ever justify putting our company’s reputation at risk“ (translated into English, speech delivered at the general assembly, April 2006), as well as relevant training and a whistle-blowing procedure. Furthermore, Daimler increased its administrative corruption controls in 2005 by monitoring and following up cases of corruption (see GRI indicators SO2, SO3 and SO4 in Figure 3b). Considering that several of Daimler’s compliance controls had been previously applied elsewhere (for example at ABB), we identify elements of an ‘isomorphic adaptation’ strategy. Furthermore, Daimler applied already in t_{pre} elements of ‘moral reasoning’, e.g., by participating in voluntary initiatives. However, the scope of transgressions disclosed at Daimler in t_{pre} also reveals that systemic corrupt practices continued well into this period. Hence, ‘decoupling’ was a key strategy at that time (“Until the year 2008 we did not do that in a quality that we considered and consider as necessary” Daimler, Senior CM, Nov. 2012).

Although Daimler faced fewer regulatory and social sanctions during t_{trans} than Siemens (see Table 2), we noted in t_{post} that its compliance program in many aspects comes close to that of Siemens. It contained strong social/cultural controls, including a close integration of compliance in the board-level brief “Integrity and Legal Affairs” established in 2011, comprehensive anti-corruption training and a whistle-blowing procedure. Interestingly, yet to a lesser degree compared to Siemens, we now also found narratives at Daimler with a certain personal and emotional connotation: “the firm has pushed to *stigmatize* bribery, even in countries where it is a common business practice. ‘It’s *no longer just a gentleman’s crime*,’ she [Hohmann-Dennhardt] said.” (Ensign, 2013, May 29). Similarly, clear anti-corruption signals from and to the leadership now referred to notions such as ‘self-servicing *mentality*’. On the other hand, administrative controls include risk assessments, monitoring and sanctions such as dismissals. Third-party bank accounts were significantly reduced, although value flow centralization was lower than at Siemens.

Observing the overlaps between the Siemens and Daimler compliance programs despite the significant differences in (social) sanctions led us to investigate the factors that may have influenced the transgression response process. After consulting further literature on contingencies, press coverage and personal interviews, we learned about the powerful role of an externally imposed FCPA monitor exceeding by far the role of regular auditors. For example, the monitor can request access to all sorts of compliance-related documents, interview people in various hierarchical positions and visit foreign subsidiaries (Hartmann, 2012; Schwarz, 2011). Our analysis revealed that long during t_{trans} , corruption controls were implemented rather slowly and insufficiently. As the Spiegel (2011) reports about information regarding the strictly secret ‘First Follow-up Monitor Report’ by Louis Freeh (FCPA monitor at Daimler):

“The Daimler-internal investigations of suspicious cases are too slow (...) Daimler does not scrutinize the efficiency of the initiated processes (...) The enterprise has not prevented ‘unethical behavior of managers’ consistently (...) At the moment, [Daimler] would not fulfill the criteria of the US stock exchange supervision SEC.”

Such references to slow yet insufficient change at Daimler point toward a combination of ‘decoupling’ and ‘isomorphic adaptation’. We further noted that “Daimler has not changed its leadership team. Daimler played it differently [than Siemens]” (Lawyer, Gibson Dunn, Nov. 2012). The reasoning on why to abstain from a massive leadership exchange involves considerations of fairness and open-ended communication with the Daimler workforce reflecting elements of ‘moral reasoning’:

“[M]any leaders grew up and studied in a world in which the perception existed that in some countries making business without facilitation payments, to name it that way, is not possible (...) I think it is fair to first inform and enable them to cope with this new context” (Senior CO, Daimler HQ, Nov. 2012).

That is, the transgression was partly attributed to the educational background of managers – foreign corruption had long been tax-deductible in Germany (Glynn et al., 1997) – and the perception of corruption as a common practice in several countries worldwide.

External enforcement pressure. Interestingly and in stark contrast to Siemens, additional regulatory pressure and social attention/sanctions through the media were necessary to realize a

comprehensive compliance system at Daimler from late t_{trans} on. A Daimler senior CO depicts these developments over time and attributes the increased speed to pressure of the monitor:

“Therefore we have [implemented] in the last three years, particularly though in the last two years as the monitor has pointed out very much stimulations in his first report, (...). Especially in the last two years an immense acceleration in our compliance management system has taken place.” (Nov. 2012)

Daimler representatives convincingly outlined the particular processes behind this change, including systematic processes to prevent and detect wrongdoing and efforts to change the previously criticized self-servicing mentality. These changes are backed by the positive judgment of the compliance monitor that “the weaknesses have become much smaller in the past two years and the strengths have become much larger” (Newswires, 2012). Hence, decoupling seems no longer to be a major strategy at Daimler in late t_{trans} . Our document analysis confirmed substantial changes in this context: “Daimler has, according to an internal list, dismissed 30 managers without notice, nine leaders received a contractual notice of dismissal. In addition Daimler restricted from business in various countries perceived as highly corrupt.” (Spiegel, 2011). Furthermore, in this period Daimler took a more active role in the UNGC by being among the first to join the UNGC LEAD initiative initiated in 2011 (“We meet [to discuss] the tenth principle twice a year, now really also to address corruption prevention” Senior CO, Daimler, Nov. 2012). This evidence indicates a thorough ‘moral reasoning’ strategy.

Finally, we perceive the period after the transgression (t_{post}) to be heralded with the end of the DPA and monitorship in April 2013. As outlined above, Daimler also applied ‘substantial influence’ in this period. Daimler respondents highlighted in follow-up interviews conducted in t_{post} that the company chose to maintain a board brief for ‘Legal and Integrity’ even after the regulatory proceedings had ended, which we interpret as an indicator for the continuity of compliance efforts at Daimler. Interestingly, after the monitor’s criticism in the first report, the same monitor stated about one year later that Daimler was willing to go even beyond regulatory requirements and become a compliance benchmark worldwide.

Synthesis. Daimler's initial response to the disclosed corruption in its 2010 DPA was rather slow and gradual with persisting elements of 'decoupling'. Due to the significantly lower initial legitimacy loss compared to Siemens, there was no global awareness and willingness for radical change. However, by the end of the 'rehabilitation' stage (t_{post}) Daimler had also implemented a comprehensive and balanced compliance program: instead of 'decoupling', we observed elements of 'substantial influence' (see Figure 3b). Our analysis revealed that, compared to the Siemens case, Daimler's accelerated response and strategy shift occurred much later. Daimler needed 'external enforcement pressure' from the FCPA compliance monitor to trigger broader awareness and elements of emotional involvement, whereas external enforcement pressure at Siemens played a minor role due to the experienced legitimacy shock and resulting emotional consternation.

----- Insert Figure 3b about here -----

ABB's¹ cyclical and partly inconsistent responses to repeated minor transgressions

Our analysis of ABB's corruption controls took a different course compared to the two other cases: Our ABB interview partners focused mainly on ABB's present state of corruption controls, i.e. the period t_{post} marked by the end of the DPA in September 2013. In this post-transgression period we identified several strong and comprehensive social/cultural controls, notably training based on a case study of real (anonymized) past incidents of corruption, a sound and offensively communicated whistle-blowing procedure (including an information desk in the HQ lobby) and strong leadership support (including a separate board position). Significantly, we also noted personal emotional narratives at ABB in this period. On the one hand, our content analysis of ABB's personal and written communication revealed that ABB refers mostly to *integrity*, rather than *compliance*. On the other hand, our conversations with two senior ABB representatives in 2012 and 2013 diverged several times from a purely rationalized question-&-answer process toward more personal and emotional reflections of the

¹ We are not permitted to use any quotes from our interviews with respondents at the ABB headquarters.

respondents, e.g., as regards the (ethical) role of corporations, the distinction between good and bad, corrupt and non-corrupt behavior. During these interviews, our respondents used notions such as ‘being *tired of rules*’, ‘the individual personal aspect’ of integrity, and consequences in case ‘you screw up’. However, apart from these strong social/cultural corruption control narratives and certain interactive controls – e.g., membership in TI, the UNGC and the Partnering Against Corruption Initiative (PACI) – we were not able to obtain detailed information on administrative controls. The partially vague and ambiguous responses from our ABB interviewees together with the assessments from third parties suggest that ABB’s administrative controls are less comprehensive compared to its social/cultural controls. As the CO of an industry peer puts during our interview in Dec. 2013:

“In the control system [referring to administrative controls], I believe, ABB has weaknesses today (...) We compare notes on this issue (...) and ABB also openly communicates that they did not invest as much in the implementation of a control system ...”

A gap between the ABB headquarters perception and our own as well as third-party observations about the company’s handling of the transgression is evident in the processes of risk assessment, monitoring, following up of incidents, and sanctions. For example, ABB mainly relies on annual surveys and the audit department to conduct corruption-risk assessments (Siemens has special ‘compliance’ assessment teams in addition to the audit department). Furthermore, ABB’s reporting on these issues is less comprehensive compared to the other case firms in t_{post} . In sum, ABB displays on the one hand elements of ‘substantial influence’ and ‘moral reasoning’. On the other hand, the gap between the image of ABB as a leader in anti-corruption management, which our interviewees painted, and the gaps between ABB’s administrative controls and the industry’s best practices that we perceive, and an industry peer and other external experts corroborated, may suggest that certain forms of decoupling were present after the second settlement.

In t_{trans} , the period marked by the SEC settlement including a three-year DPA starting in September 2010, ABB faced lower regulatory sanctions and almost negligible social sanctions (see Table 2) compared to Siemens. This suggests that none of the three legitimacy types was severely threatened. Notably, in contrast to Daimler and Siemens, ABB was not scrutinized by an external monitor, while lawyers, consultants and auditors conducted more limited investigations than at Daimler and especially at Siemens. Overall, it cannot be said that external authorities left ‘no stone unturned’ in ABB’s case. Consequently, instead of establishing a system that would help it achieve full transparency about every business process, ABB chose the possibly less resource-intensive approach of preventing corrupt behavior by attempting to change the mindset of its employees.

While respondents from all three firms mentioned the powerful role of the SEC, ABB interviewees downplayed the effect of the 2008–2010 transgression disclosure and settlement on the company’s anti-corruption strategy. They admitted that there was a whole list of organizational requirements that the company had to fulfill in order to comply with the FCPA. Further, considering that their rhetoric revealed a confidence that the company would not have to introduce drastic changes indicates the application of an ‘isomorphic adaptation’ strategy. From t_{trans} onwards ABB pursued this strategy by orienting itself more to the practices already implemented at competitors like Siemens: A comparison of the slogans of each company’s compliance program (Siemens: ‘Prevent, Detect, Respond’; ABB ‘Prevent, Detect, Resolve’) supports this impression. While our respondents could not specify when and why these slogans were conceived, our document analysis revealed that Siemens has used its slogan in public reports since 2009 (e.g. Annual Report, 2009: 59), whereas the first ABB document we found using this slogan was published on April 1, 2012 (“The ABB integrity program”: 3). Similarly, Siemens’s slogan ‘Only clean business is Siemens business – everywhere – everybody – every time’ (see Moosmayer and Winter, 2011: 4, indicating that the slogan originated in a Löscher speech between 2007 and 2008) is later echoed in ABB’s code of conduct: ‘We ex-

pect this [acting ethically and with integrity] of every single ABB employee, in every location, every day' (ABB Code of Conduct, 2013: 4). References in the DPA like "following discovery of the bribery, ABB (...) voluntarily and timely disclosed to the (...) SEC the misconduct" and "ABB Ltd conducted a thorough internal investigation of that and other misconduct" (ABB DPA, 2010: 4) suggest a termination of 'decoupling'. However, the identified gap between ABB and third party perceptions leaves us uncertain as to whether some elements of 'decoupling' may have persisted at ABB in this period (see Figure 3c).

A central reason behind ABB's introduction of considerable corruption controls in the period (t_{pre}) prior to the SEC settlement and DPA became apparent only after the second round of interviews and analysis: An earlier settlement between ABB and the SEC in 2004. The smaller-scale settlement (bribes of US\$ 1.1 million and a penalty of US\$ 10.5 million, compared to the 2010 settlement involving at least US\$ 2.7 million in illicit payments and a penalty of US\$ 39.3 million) and the early date may explain why we did not initially notice it. Nevertheless, our analysis (see Figure 3c) shows that (in t_{pre}) ABB was indeed the first of our three case firms to install certain corruption controls, especially social/cultural ones as outlined above, which points to strategies of 'moral reasoning' and '(substantial) influence'. Considering that the SEC found ABB's integrity program deficient on several counts in the 2010 settlement ("ABB, through its officers, agents and subsidiaries, failed to detect and prevent the illicit payments revealing a lack of effective internal controls" SEC Complaint, 2010: 19), 'decoupling' is likely to have persisted at ABB after the first (2004) settlement.

Synthesis. ABB's response process appears sometimes inconsistent to us: Existing models of organizational corruption control (e.g. Lange, 2008) do not explain why ABB focused its response on social controls rather than administrative ones, although it faced mainly regulatory rather than social sanctions. So we need to consider other contingencies. As Figure 3c shows, ABB displays the most diverse spectrum of legitimacy strategies, especially in t_{post} , ranging

from potentially persistent elements of ‘decoupling’ to indications of best practices and ‘(substantial) influence’. In contrast, Siemens clearly focused on just one strategy (‘substantial influence’) directly after the HQ raid, which drastically disclosed the transgression, and Daimler slightly narrowed its strategy portfolio especially after the monitor critique. The fact that ABB was involved in two transgressions each causing only lower to minimal loss of legitimacy, without critical events (HQ raid or strong monitor critique) demanding immediate and decisive responses, may explain this persisting wide spectrum of legitimacy strategies.

Furthermore, our case firm responses in the context of disclosed transgressions and legitimacy loss all display a considerably different temporality. First, the legitimacy shock at Siemens after the HQ raid triggered one radical change process of unprecedented speed. Second, Daimler also initiated one continuous change process after the official corruption disclosure in the DPA but its response only gained higher speed and substance after the monitor critique. Third, ABB’s response – while also nonlinear – was rather separated in two response cycles of similar scope: Compared to the two other case firms, ABB had realized considerably bigger strategic changes including elements of ‘(substantial) influence’ already after the first settlement, yet prior to the DPA. This latter transgression then no longer had sufficient clout to further expand or even focus on ‘substantial influence’; rather the changes realized at ABB in this second response cycle fostered the persistence of ABB’s wide strategy portfolio.

We can hence conclude that for a transgression to trigger a holistic set of innovative and comprehensive anti-corruption processes, a certain level of legitimacy loss or urgency is necessary, even if it places the transgressor in the role of a first mover.

----- Insert Figure 3c about here -----

DISCUSSION AND CONCLUSIONS

Legitimacy loss seems ubiquitous in today’s globalized economy with multiple heterogeneous and changing demands. Hence, any modern organization operating in such an environment

may be concerned sooner or later, if not continuously, with managing strategic responses to legitimacy loss (Scherer et al., 2013; Pfarrer et al., 2008). The main purpose of this case study was to investigate how and why organizations respond to the loss of legitimacy in the context of disclosed corruption. Research on responses to such a legitimacy loss is scarce, so we need theoretical development to better understand these contexts. Our study revealed a shift from decoupling to substantial influence at all our case firms resulting from legitimacy loss and an emotional reaction, such as consternation, after disclosed corruption. However, we found considerable differences in the dynamics, chronology and intensity of organizational strategies: Only the combination of high regulatory and social pressure leading to a legitimacy shock, which we observed in the Siemens case, may trigger radical change in a firm's anti-corruption strategy. Siemens acted instantly and drastically, choosing a clear strategy of 'substantial influence' and its best practices served as examples for other transgressors and industry peers. In addition, the intensive legal investigations and screenings created an unprecedented level of transparency at Siemens, enabling the company to break the taboo and openly communicate its corrupt history as well as its lessons from implementing substantial corruption controls. In contrast the responses at Daimler followed a very different temporality and strategy mix, the former only accelerating its organizational change process after external enforcement during the transgression period. Elements of 'decoupling' gave way to those of 'substantial influence' only later and less drastically. ABB responded in two distinct cycles to repeated loss of legitimacy, acting partly as a pioneer in the first ('substantial influence') and more as a follower in the second ('isomorphic adaption').

This study contributes to developing theory on organizational strategies in the context of legitimacy loss. In particular, we emphasize four components in the following subsections. First, we identify a new legitimacy strategy called 'substantial influence', and outline how its firm-driven and emotional elements question the assumptions of predominantly rationalized and stakeholder-driven response processes on which previous anti-corruption models rely

(Bertels et al., 2014; Pfarrer et al., 2008). Second, we outline significant difference in the temporality and chronology of organizational responses. While the legitimacy shock (at Siemens) triggers more expeditious and radical changes, recent trends in regulatory procedures such as the DPA and monitorship (at Daimler) – also referred to as restorative justice or creative sentencing (Bertels et al., 2014) – or repeated settlements (at ABB) trigger more gradual or cyclical change. Third, our study clarifies previous assumptions on employing strategic manipulation to regain legitimacy (Oliver, 1991; Scherer et al., 2013; Suchman, 1995) by distinguishing between two extremes: decoupling and substantial influence (bottom of Figure 4). Finally, our study reveals the conditions under which organizations choose multiple versus single legitimacy strategies in an attempt to repair their legitimacy in heterogeneous environments.

‘Substantial influence’ resulting from high legitimacy loss and emotional consternation

In contrast to the suggestions of previous research that companies facing an unprecedented transgression – like Enron, WorldCom or Tyco – may not recover due to the enormous stigma that ‘first movers’ suffer (Pfarrer et al., 2008; Goffman, 2009), our study reveals that ‘first movers’ may indeed be able to regain legitimacy by substantially influencing their environment. Particularly, we argue that high levels of legitimacy loss, and especially a legitimacy shock (center of Figure 2), i.e., a radical loss of legitimacy due to exceptionally high regulatory and social sanctions, increases the chances that transgressors will make wholesale and radical changes. Our findings further suggest that conventional reintegration models (Bertels et al., 2014; Pfarrer et al., 2008) may fail to explain accurately the process by which transgressors respond to legitimacy loss or even shock.

On the one hand, the reintegration literature tended to view organizational responses to legitimacy loss as primarily and continuously stakeholder driven suggesting that organizational responses closely follow stakeholder claims as evolving over the different reintegration stages

(Pfarrer et al., 2008). Similarly, the literature on institutional determinism (e.g. DiMaggio and Powell, 1983) views organizations as passive actors, which isomorphically adapt to and conform with the expectations in their institutional environment. In contrast, the ‘substantial influence’ strategy identified here sheds light on firm-driven responses that proactively shape and influence these stakeholder or institutional demands through substantial organizational actions. That is, the organization defines a new benchmark for the field, which stakeholders then acknowledge and take for granted as new standard. This latter view of organizational actors complements initial arguments on proactivity through ‘technical actions’, i.e., “ones that have the potential to address the causes of wrongdoing and thus attract the media and stakeholders’ attention to the internal processes of a firm” in the crisis and impression management literature (Zavyalova et al., 2012: 1080). Not only did the substantial (or ‘technical’) actions at Siemens attenuate the negative effect of its own wrongdoing (Zavyalova et al., 2012), but the unprecedented extent of these actions even influenced its peers, the public and regulators to perceive Siemens as a new compliance benchmark.

On the other hand, previous models pictured MNCs as organizations consisting of rational top management and staff and characterized by well-thought-out decisions based on all relevant facts and options. Pfarrer et al. (2008: 735), for example, describe the outcome of the ‘discovery stage’ as the ‘facts of the transgression’. Similarly, although the reintegration process that Bertels et al. (2014) describe is more nuanced (outlining, e.g., the escalation paths of regulatory pressure), the authors primarily consider rational factors and largely ignore the emotional (personal) factors that determine the transgressor’s response to a transgression (see legitimacy shock legend of Figure 2). Also with reference to rationality, a central assumption in institutional theory is that organizations follow ‘rationalized myths’, that is, taken-for-granted rules or demands in its institutional environment, and hence pursue strategies of decoupling or isomorphism (here: isomorphic adaptation) (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). However, in the context of (high) legitimacy loss, we theorize that not only the ‘ration-

alized myths' or 'facts of a transgression' (e.g., monetary fines and regulatory sanctions), but also – if not predominantly – the personal and emotional involvement of the organization's members explain the 'substantial influence' strategy of our transgressors. On those grounds, we argue that emotions (Baumeister et al., 2007) are key to conceptualizing how transgressors reintegrate themselves into their environment after a transgression.

Creed et al. (2014) provide an analysis of the mechanisms through which shame, a self-directed emotion, affects people's willingness to participate in institutional processes. Recognizing that maintaining social bonds is a 'crucial human motive' (Scheff, 1990: 4), the authors argue that shame signalizes that social bonds are at risk and triggers efforts to preserve these bonds (Baumeister et al., 2007). We build on the idea that shame can act as a means of inter-subjective surveillance and self-regulation and suggest that personal emotions like shame trigger the quest for substantial organizational change to secure or re-establish social bonds. The public-oriented raid by 200 police officers and officials at the Siemens headquarters in Munich, and to a certain extent the prominently published critique of Daimler's FCPA monitor, can thus be regarded as instances of shaming. Previous reintegration literature has viewed shaming exclusively from the stakeholder perspective and treated it as a later stage in the reintegration process situated after 'discovery' and 'explanation' (Pfarrer et al., 2008: 739; Braithwaite, 1989). We complement this literature by highlighting that shaming may have an even bigger effect on organizational responses if situated at the very beginning of the transgression, and by explaining the effect of shaming by focusing on the firm (rather than stakeholder) perspective.

Previous research focused on how emotions spread collective corruption within an organization (Smith-Crowe and Warren, 2014). In contrast, our findings outline how emotions can be used to trigger efforts against organizational corruption. We propose that such emotions are crucial to overcome rationalized routines that may have led organizations to continuously ap-

ply decoupling and isomorphic adaptation strategies by activating personal attention, motivation and conviction for substantial change among organizational members. The legitimacy shock at Siemens, by triggering a strong emotional shift from pride to consternation, enabled the general acceptance of radical change. Metaphor-laden narratives such as ‘change the course or sink’ fostered the emotional involvement of the workforce. Similarly, ABB aimed to secure its employees’ personal and emotional involvement by strongly focusing on a value- and principle-based integrity approach rather than a ‘tiring’ rule-based compliance approach. Especially after the monitoring critique, Daimler also tried to reach the ‘hearts and minds’ of its managers and employees by changing their ‘mentality’ and ‘stigmatizing’ corruption.

Varying temporalities in organizational responses: The role of a legitimacy shock versus regulatory sanctions

The Siemens response was marked by a sudden and substantial change in organizational strategy right after the MNC was hit by the legitimacy shock. Daimler, especially before the monitor critique, and ABB after its second transgression followed a much slower and more gradual (Daimler) and cyclical (ABB) reintegration path (see differently curved arrows in Figures 2 and 3a-c), which is more in line with conceptual reintegration models: Pfarrer et al. (2008) distinguish four reintegration stages: *discovery*, *explanation*, *penance* and *rehabilitation*.

According to this model, during the ‘discovery’ stage, Daimler waited until most facts had been collected and disclosed, and abstained from a sudden response. In the ‘explanation’ and ‘penance’ stages, Daimler took the time to reflect on why the transgression happened and how the organization should respond, whereas Siemens had practically skipped large parts of the ‘discovery’ and the entire ‘explanation’ stages. We thus propose that in the absence of a legitimacy shock, e.g., if ‘only’ pragmatic legitimacy is at risk whereas cognitive legitimacy (the taken-for-granted acceptance of the organization) remains unchallenged, several aspects of previous reintegration models (Bertels et al., 2014; Pfarrer et al., 2008) hold. In this case,

transgressors may judge that they can afford to wait until they have all the facts before they seek and provide appropriate explanations, enter into regulatory agreements by way of reparations, and implement organizational changes in line with these agreements, following the four stages (discovery, explanation, penance and rehabilitation) Pfarrer et al. (2008) identified.

Furthermore, we suggest that in the absence of a legitimacy shock, continued regulatory pressure plays a crucial role in triggering transgressor responses. Repeated or escalating external pressure may be necessary for transgressors to develop comprehensive controls and implement leading practices in the fight against corruption, as the model put forward by Bertels et al. (2014) suggests. Our findings, especially those on Daimler, identify external compliance monitors as very effective – though overlooked in recent research – means of triggering a much higher dynamic in organizational change through escalating pressure. The Daimler case in particular illustrates that the presence of an external monitor during the process of regaining regulatory legitimacy influenced significantly the transgressor's reintegration strategy. This is also of interest to practitioners and scholars concerned with CSR initiatives or standards. In the context of schemes like the UNGC, our study shows that in situations where the transgression and the transgressor's power are not extreme (Daimler as opposed to Siemens), imposing external and stringent monitoring on the disgraced members may facilitate and accelerate their learning progress (Schembera, 2016). While the UNGC so far lacks resources to install direct monitoring (Rasche, 2009), one pragmatic solution would be to establish a fund to collect the necessary resources for appointing teams that monitor UNGC members.

Finally, our findings in the ABB case show that regulatory proceedings like the DPA that are closed only after the successful implementation of a set of agreed organizational corruption controls are effective in cases of low transgression prominence. After its first transgression, ABB was only obliged to pay monetary fines, and the company failed to implement a holistic set of corruption controls. After the second transgression, which was again of low promi-

nence, US regulators and ABB entered a DPA with a list of required corruption controls, which turned out to be effective for ABB to realize more holistic organizational changes.

The two extremes of strategic manipulation: Decoupling versus substantial influence

Previous legitimacy research falls short in distinguishing our transgressors' strategy shift over time, and instead would refer to all strategies as '(strategic) manipulation' (see, e.g., Oliver, 1991; Scherer et al., 2013; Suchman, 1995; Child and Rodrigues, 2011). A main reason for this limitation is that previous research refers to manipulation strategies mainly as a public relations tool that organizations employ to manipulate or co-opt the perceptions of critical stakeholders, without actually modifying the practices that these stakeholders criticize (Scherer et al., 2013: 266; Oliver, 1991: 159). To capture the commonly observed strategy shift, we thus propose to distinguish between two extreme variants of strategic manipulation: 'decoupling' and 'substantial influence' (see Figure 4). Both variants contain an organization's attempt to manipulate its environment. However, the former involves no or minimal change of actual organizational practices, whereas the latter involves a very comprehensive change of actual organizational practices. 'Substantial influence' can hence be defined as an organization's radical and active effort to (1) manipulate public perceptions, and (2) change its own organizational practices. Figure 4 illustrates the difference between the two variants.

----- Insert Figure 4 about here -----

Given these differences between the two strategic manipulation variants, we propose to abstain from referring to strategic manipulation in general and, in order to avoid ambiguity, instead to specify whether decoupling or substantial influence is at play. The presented findings support our initial suggestion that in recent legitimacy literature (Scherer et al., 2013) strategic manipulation (Suchman, 1995; Oliver, 1991) can be mostly equated with a 'decoupling' strategy (Meyer and Rowan, 1977) (see left side of Figure 4). Both strategy concepts are based on the assumption that organizations achieve legitimacy by constructing a façade of or-

ganizational structures and processes that reflects institutional myths (shaped, e.g., by expectations concerning proper business practices) without adjusting their organizational practices to match the projected image.

We furthermore suggest that the other observed extreme variant of strategic manipulation should be labeled and defined as ‘substantial influence’ (see right side of Figure 4). While elements of this strategy do appear in previous studies – e.g., Nike’s decision to disclose the names of its supply-chain partners (Scherer et al., 2013: 268) – such earlier works focused on cooperation with civil society organizations and described this approach as a ‘proactive moral reasoning’ strategy. However, in contrast to ‘proactive moral reasoning’, the ‘substantial influence’ strategy, as we described and defined it, does not involve open-ended discourses between organizations and their stakeholders, but clear and predefined targets. In sum, distinguishing between the strategies of decoupling and substantial influence allows to contribute to the organizational reintegration (e.g. Pfarrer et al., 2008) and legitimacy (Oliver, 1991; Scherer et al., 2013) literatures by capturing a holistic typology of organizational strategies in the context of legitimacy loss.

Multiple versus single legitimacy strategies: What works when?

Theoretical assumptions on the use of legitimacy strategies vary greatly and we perceive the need to clarify the conditions under which the different assumptions hold true. The contradictions between different approaches – namely, the resource-based view (Christmann, 2000; Hart, 1995), discourse ethics (Stansbury, 2009) and institutional theory (Delmas, 2002; Schaefer, 2007) – give the impression that a corporation only applies one legitimacy strategy at a time. Palazzo and Scherer (2006) argue that choosing between different legitimacy strategies in a globalized economy does not work as smoothly as it once did (see Oliver, 1991). Scherer et al. (2013), therefore, suggest that in heterogeneous environments that place con-

flicting demands on corporations, a favorable way to maintain or regain legitimacy may be to combine different and potentially contradictory legitimacy strategies.

Our findings on Daimler and ABB reveal that nowadays transnationally operating organizations indeed tend to apply a mix of different legitimacy strategies in order to manage the heterogeneous anti-corruption expectations they face. Both firms combined strategies of ‘isomorphic adaptation’ with ‘moral reasoning’. Combining ‘decoupling’ with other legitimacy strategies turned out to be problematic, however. ABB temporarily combined elements of ‘decoupling’ even with the other extreme variant of strategic manipulation ‘substantial influence’. While Scherer et al. (2013) suggested that contradictory legitimacy strategies may be applied simultaneously in complex environments, the reoccurrence of regulatory sanctions at ABB illustrated the limitations of such an approach. The Siemens case, in contrast, indicates that in complex institutional environments, a radical shift from ‘decoupling’ to ‘substantial influence’ appears more promising with regard to avoiding additional regulatory sanctions.

Boundary conditions and future research

A common question in case study research concerns the transferability of findings. We consider a key strength of our study that it analyzes multiple cases from which not only common themes across cases emerged, but also fundamental differences; this combination arguably provided us with a good basis for deriving more general suggestions on the relation between legitimacy loss and organizational response. While we studied MNCs as a prototype case of organizations responding to legitimacy loss in a complex environment, our findings may well be transferable to other large and public organizations facing similarly heterogeneous demands. On the one hand, considering that our case firm’s slightly varying industry context was not a major factor in explaining organizational responses, generalizations may also hold across industries. On the other hand, considering that multinational organizations like FIFA (Fédération Internationale de Football Association), IAAF (International Association of Ath-

letics Federations) or UCI (Union Cycliste Internationale) are also large powerful actors facing high public prominence and heterogeneous (anti-)corruption demands, certain elements of our findings may be also transferable to ‘non-profit’ organizations.

As regards the type of transgression, because bribery was a particular common, yet not the only, type of corruption observed at our case firms, and the particular type of transgression helped little in explaining organizational responses, our findings may hold as well for other cases of legitimacy loss. Caution, however, seems necessary when deriving generalizations of our model for organizations that are not originated in low corruption risk countries as studied here. For example, due to potentially different social norms and/or transparency standards (i.e. risk of transgression disclosure and information exchange with Western authorities), a Chinese MNC may experience less of a legitimacy loss in its home country after transgressions similar to the Siemens or Daimler case. Consequently, future research may focus on responses to legitimacy loss of organizations originated in such perceived high-corruption risk countries.

We further acknowledge possible limitations with regard to the global level of analysis that we applied in our study. While we aimed to include a global perspective in our study – by obtaining data from various MNC locations worldwide – our focus was more on the central and common processes in the transgressors’ global strategy change. It was beyond the scope of this paper to scrutinize in depth differential strategy shifts across MNC subsidiaries (Kostova and Roth, 2002). Our level of analysis was hence predominantly global rather than local. Future research is needed to zoom in on these differential processes across the various locations of multinational organization, for example, by looking at different types of network structures, value systems, and power relations.

To conclude, by empirically analyzing organizational strategies in the context of legitimacy loss, we found a common shift from ‘decoupling’ to ‘substantial influence’. Our findings go beyond the existing literature in that they show how emotions enable organizations to deviate

from rationalized routines or ‘myths’ to realize substantial firm-driven change that goes beyond institutional or stakeholder expectations. We further outlined that there seems to be no prototype or ideal way of responding to legitimacy loss; rather several transgression characteristics such as previous sanctions, prominent disclosures and external enforcement pressure determine the chronology of strategies and speed of strategy shifts. Several studies have theorized this response process from different angles (Pfarrer et al., 2008; Bertels et al., 2014). However, future research is needed to empirically validate or specify existing models as well as focus on the particular challenges of multinational organizations operating in complex heterogeneous environments.

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Figure 1: Data structure

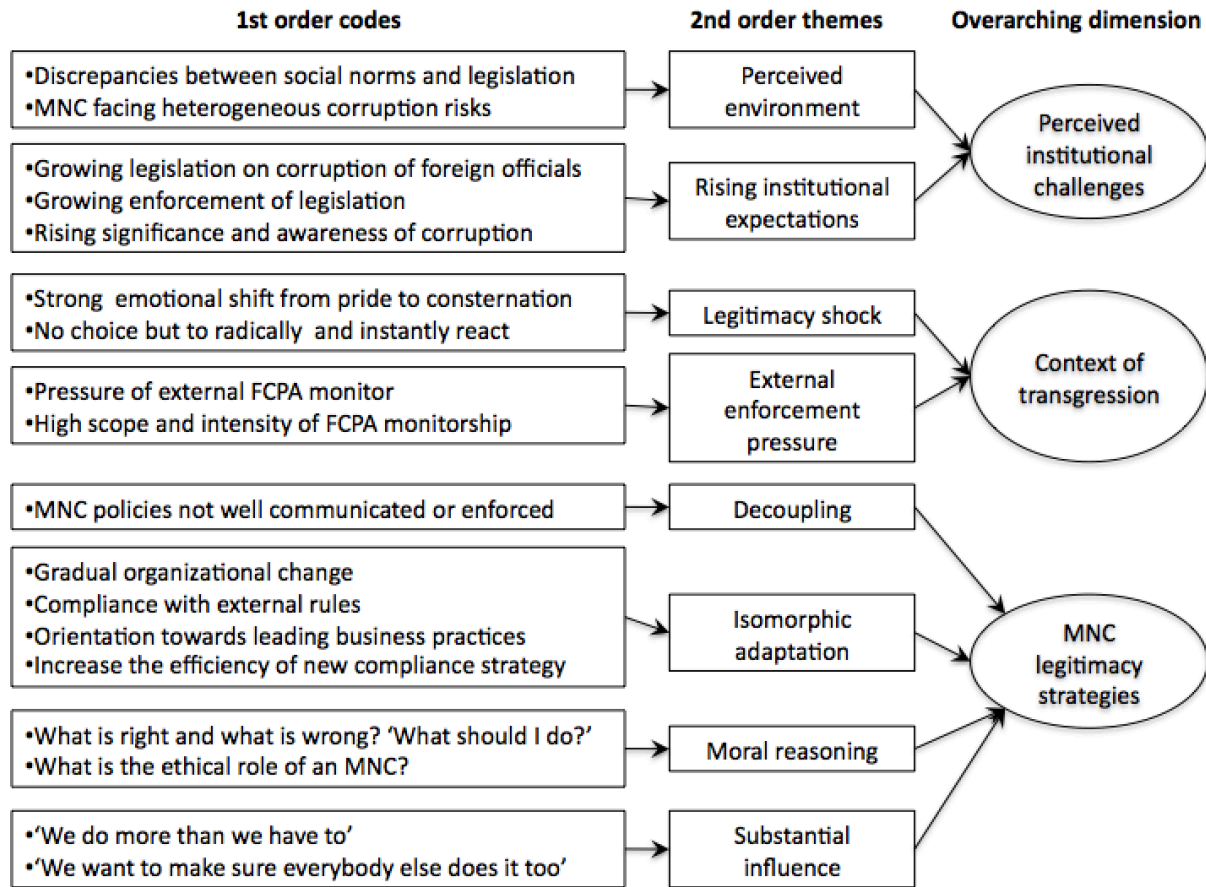
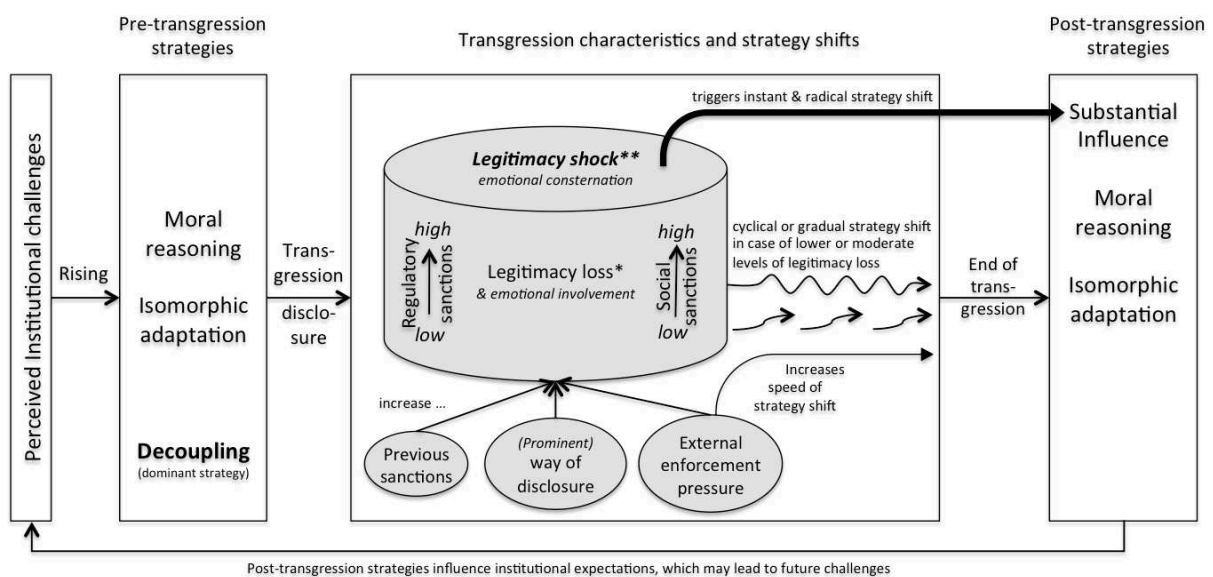


Figure 2: Organizational Strategies in the Context of Legitimacy Loss

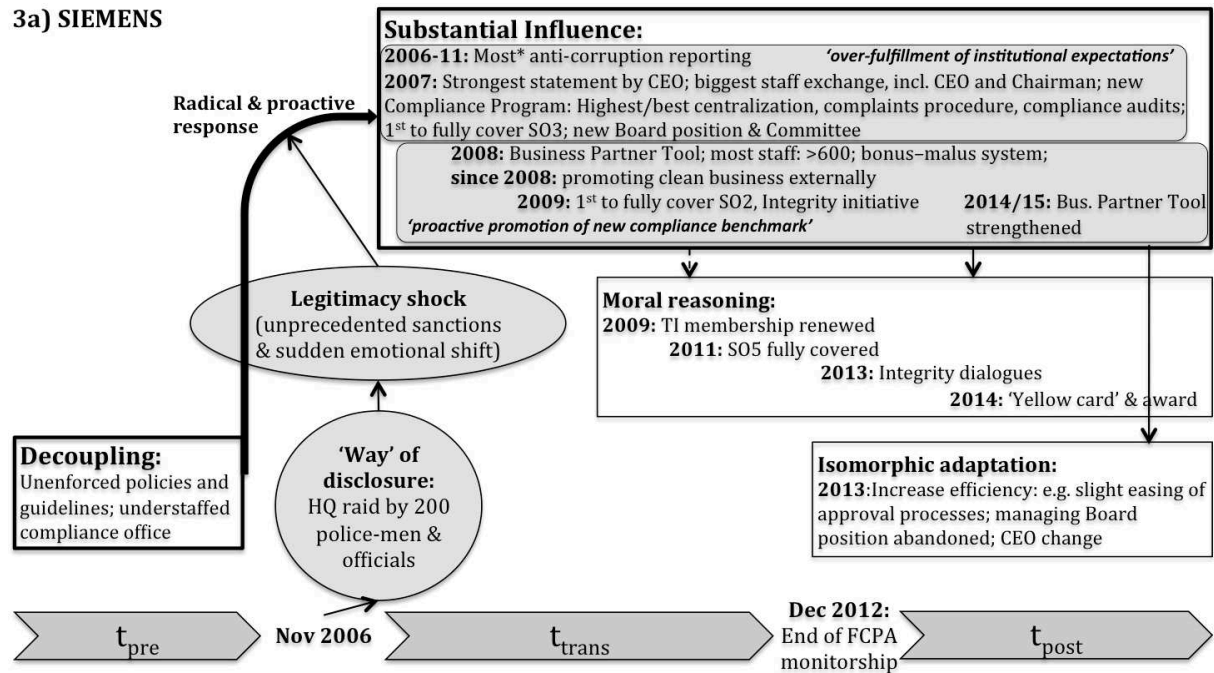


*The higher regulatory and social sanctions, the higher the resulting legitimacy loss. Lower or moderate levels of regulatory and social sanctions tend to affect mostly pragmatic legitimacy triggering predominantly rational considerations. Higher levels of regulatory and social sanctions increasingly affect moral and cognitive legitimacy triggering emotions in organizational responses.

**Organizational & personal emotional shock resulting from high levels of regulatory and social sanctions. All types of legitimacy (pragmatic, moral and cognitive) are affected.

Figure 3 (a-c): Individualized case firm process timelines

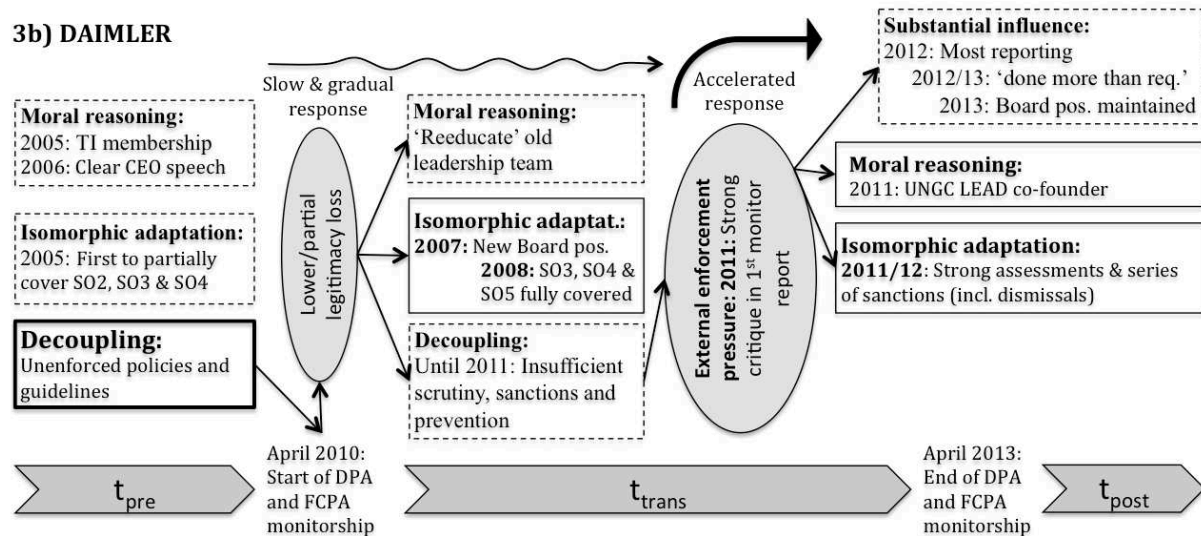
3a) SIEMENS



Legend (for Figures 3a-c):

- *Any type of comparative analysis (e.g. most/biggest/strongest/first, less/least, ...) is in relation to the three case firms, if not stated otherwise
- DPA = Deferred Prosecution Agreement; monitorship = external monitor imposed by SEC
- SO2-SO5 (Global Reporting Initiative indicators): SO2 (percentage and total number of business units analyzed for risks related to corruption); SO3 (percentage of employees trained in the organization's anti-corruption policies and procedures); SO4 (actions taken in response to incidents of corruption); SO5 (Public policy positions and participation in public policy development and lobbying)
- PACI = Partnering Against Corruption Initiative; TI = Transparency International

3b) DAIMLER



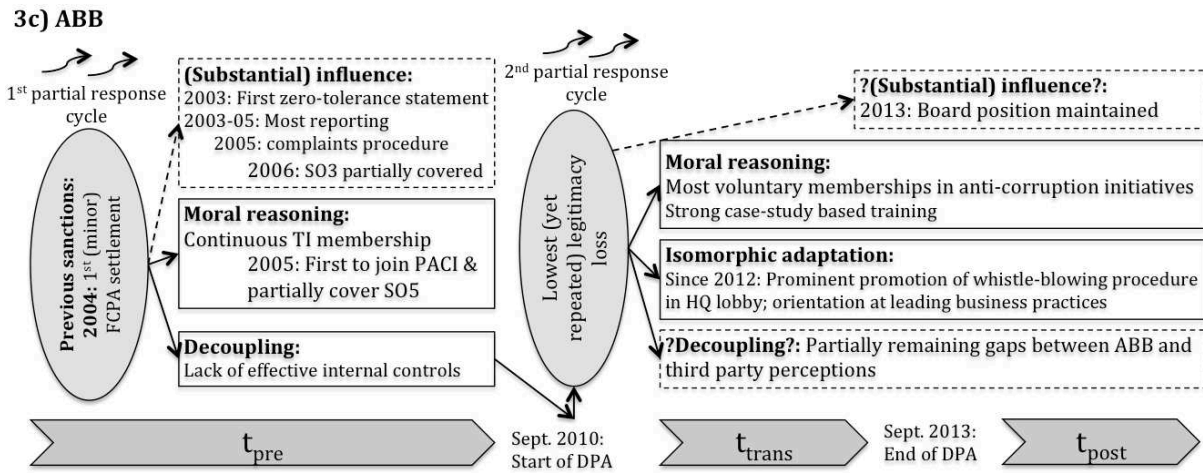


Figure 4: Two extreme variants of ‘strategic manipulation’

Decoupling		Substantial Influence
=		=
✓	manipulation of public perceptions	✓
+		+
✗	change of organizational practices	✓

Table 1: Relating Corruption Control Elements and Legitimacy Strategies

Type	Corruption Control Elements	Legitimacy strategies	
<i>Social/cultural</i> corruption controls	Leadership support <ul style="list-style-type: none"> SC: high-level personnel as overseer (see also: Pfarrer et al., 2008) CC: strategic integration and leadership support Training <ul style="list-style-type: none"> SC: effective communication CC: training See also OCC: self-controls Whistle-blowing procedure <ul style="list-style-type: none"> OCC: vigilance controls; concertive controls (horizontal surveillance by coworkers) CC: creation of a complaints procedure 	Moral reasoning	Substantial influence
<i>Administrative</i> corruption controls	Bureaucratic controls <ul style="list-style-type: none"> OCC: formalized rules, policies (see also: Pfarrer et al., 2008), hierarchical and centralized structure, specialized positions SC: compliance standards and procedures; due care in delegating substantial discretionary authority Alignment of incentives <ul style="list-style-type: none"> OCC: incentive alignments CC: alignment of incentive structures (see also: Pfarrer et al., 2008) Monitoring and follow-up <ul style="list-style-type: none"> SC: monitoring, auditing, reporting; enforcement and disciplinary mechanisms; response upon detection OCC: punishment (measuring, monitoring and sanctions) CC: evaluation 	Isomorphic adaptation	
<i>Interactive</i> corruption controls	Collective Action <ul style="list-style-type: none"> CC: quality of stakeholder relationships; level of participation in collaborative CC initiatives <i>Beyond OCC and SC</i> 	Decoupling (if implemented loosely and fractionally)	

Legend:

- CC = Corporate Citizenship Assessment Tool (Baumann-Pauly and Scherer, 2013)
- OCC = Organizational Corruption Control Circumplex (Lange, 2008)
- SC = Sentencing Commission Guidelines (USSC, 2010)

Table 2: Classification of transgression sanctions

Company	Type of sanction	Magnitude of sanction
Siemens	Regulatory sanctions (fines & org. compliance costs)	In December 2008, Siemens entered an agreement to settle the FCPA-related charges it had been called to pay, including the installation of an external monitor for a period of four years until December 2012 (SEC, 2008c). In a settlement with the World Bank in July 2009, Siemens committed to pay \$100 million over the following 15 years to support anti-corruption work. The fines imposed by US and German regulatory authorities amount to more than \$1.6 billion; the organizational costs for rehabilitation are expected to surpass this figure. The costs for organizational changes made in response to these regulatory requirements are probably even higher. In addition, a 2009 settlement with the World Bank included, for example, “a commitment by Siemens to pay \$100 million over the next 15 years to support anti-corruption work” (WBG, 2009). Altogether, we can ascertain with confidence that fines and costs involved in this Siemens corruption transgression are unprecedented.
	Social sanctions (reputation loss & prominence of transgression)	As we learnt in the course of our interviews, the disclosure of the transgression was rather unique and had an immense effect on social sanctions: In November 2006, around 200 policemen and officials turned up at the Munich headquarters to confiscate material relevant to the corruption cases at Siemens and arrested Siemens employees of the communication sector (SEC, 2008a). This “Dawn Raid” is likely to have made the magnitude of the problem obvious to almost every Siemens employee around the world and triggered an unprecedented level of negative media coverage on corporate corruption (see RepRisk, 2013). Even more, closely after this event, the prominent normative anti-corruption institution Transparency International Germany terminated Siemens’s membership in December 2006. Overall, we perceive social sanctions to be by far the highest among our case firms.
Daimler	Regulatory sanctions	The fines Daimler paid to settle the SEC charges with the SEC and the DOJ amounted to around \$185 million in total. Furthermore, an external monitor was installed pointing out major organizational compliance deficits (Spiegel, 2011); hence, the organizational costs to achieve rehabilitation are likely to be substantial. Although fines and related costs at Daimler can be described as high, they do not reach the level of burdens at Siemens.
	Social sanctions	The corrupt practices were disclosed by the SEC in March 2010 and the agreed DPA lasted from March 2010 to March 2013, so the Daimler transgression erupted at least one and a half years after the Siemens transgression. This may also explain why Daimler was not as much in the spotlight as Siemens, reflected in the significantly lower level of media coverage on corruption risks at Daimler (RepRisk, 2013). In the Daimler case, there was also no big and sudden investigative act to trigger instant and massive public awareness. The level of social sanctions is thus rather moderate compared to Siemens.
ABB	Regulatory sanctions	To settle the SEC charges, ABB agreed to pay more than \$39.3 million. In this case, no external monitor was appointed, which together with the requirements listed in the DPA (DOJ, 2010) indicates that the organizational costs for rehabilitation are considerably lower than those of Siemens and Daimler.
	Social sanctions	The three-year DPA agreed with the SEC started in September 2010, almost two years after the Siemens agreement; moreover, the scope of the corrupt practices was limited to a few countries. This may indicate the rather low media coverage on compliance risks, especially compared to the Siemens case (see also Table 3) supports our assessment: from 2006 to 2013, we found only 10 entries on corruption-related reputation risk concerning ABB in the RepRisk database, compared to 138 for Siemens and 40 for Daimler (RepRisk, 2013). In sum, social sanctions are lowest among case firms.

Table 3: Data sources and corresponding perspectives in the analysis

	Siemens	Daimler	ABB	Third parties (lawyers, auditors, NGOs, officials)	Perspective (purpose: triangulation)
Data types					
Interviews (Germany and Switzerland)	3	2	2 (2 informants each)	4 (+ 1 formal and several informal interviews with academics)	Corporate head-quarter
Interviews (Australia)	2	1	1	3 (+ 3 formal and several informal interviews with academics)	Corporate global (<i>low</i> perceived corruption risk)
Interviews (Southeast Asia)	4	1 (2 informants)	2 (now at Siemens)	11	Corporate global (<i>high</i> perceived corruption risk)
FCPA related documents	6	3	6	1	Regulatory
Company reports and policies	20	14	20	-	Corporate perspective (details on processes, structures and performance)
Rep-Risk (Sep. 04, 2013) & other media	152	45	10	-	Public/societal perspective

Table 4: Representative evidence from interview data

Perceived institutional challenges	
Perceived environment	<p>Code: Discrepancies between local social norms and legislation</p> <p>‘Sometimes it is not just the political will, it’s the whole culture of getting things done. (...) And for people who don’t understand the cultural difference between the two countries, they won’t accept that as normal’ (Singapore Global Compact Network, President, Mar. 2014).</p> <p>‘There are differences in the understanding of corruption and the tolerance level. (...) So in some cultures, certain practices, although people know it is not right, they are commonly accepted’ (Daimler Greater China, (Chinese) CM, Mar. 2014).</p> <p>‘Malaysia’s got some of the best legislation in the world, but the political and social will to enforce it is often lacking’ (TI Malaysia, Program manager, Apr. 2014).</p> <p>Code: MNC facing heterogeneous corruption risks</p> <p>‘Of course there are different risks in different countries’ (Daimler, Senior CM, Nov. 2012).*</p> <p>‘Someone in Australia might say “you tell me I need to do x,y,z, but because I am low risk, I am going to do the low risk strategy” whereas “because I am in China, I am going to do the high risk strategy”’ (Large professional services firm, Australia, Senior manager, Mar. 2013).</p> <p>‘The Australian culture is less prone to corruption because it is not seen as a cultural norm, whereas in other countries ... (ABB Australia, IO & Regional counsel, May 2013).</p> <p>‘Insofar corruption quite is an everyday issue in Indonesia. This is of course completely different in Germany’ (KADIN Business Support Desk Indonesia, Mar. 2014).*</p> <p>‘So they are basically killing themselves in a market like the Philippines. That’s what they realized. It’s like inflicting pain on yourself. You are allowed to bribe in this country here, welcome! But my parents would kill me’ (ECCP Philippines, Mar. 2014).</p> <p>Code: Growing legislation on corruption of foreign officials</p> <p>‘Compliance and its increasing significance have to be regarded in historical context. Until 1999 these topics were tax-deductible as beneficial expenditures’ (Daimler, Senior CM, Nov. 2012).*</p> <p>‘The changes in the legal landscape caused by Germany’s ratification of the OECD Convention and Siemens’ listing on the NYSE should have put an end to bribery at Siemens. Unfortunately, they did not.’ (SEC Compliant, Dec. 2008)</p> <p>‘UK pressed ahead with the criminal liability of facilitation payments. FPs are not exempted from criminal liability in the UK Bribery Act’ (Lawyer, Gibson Dunn, Nov. 2012).*</p> <p>‘Singapore has a law similar to the UK Bribery Act, or the FCPA, wherein they can be prosecuted for foreign corrupt acts’ (CSR ASEAN, Manager, Mar. 2014).</p> <p>Code: Growing enforcement of legislation</p> <p>‘The department of public prosecution in Munich has discovered criminal conviction in the context of this legislation as some source of income. (...) There are high pressure mechanisms in the US’ (Lawyer, Gibson Dunn, Nov. 2012).*</p> <p>Code: Rising significance and awareness of corruption</p> <p>‘But there was no great awareness for compliance issues. This was not something specific to Siemens, but it was also not present as an issue in society (Siemens, Senior CM, Nov. 2012).*</p> <p>‘There’s something developing in the awareness of the public (in the Swiss market), and we are also contacted by clients to make things transparent’ (Siemens, Senior CM, Nov. 2013).*</p>
Rising institutional expectations	
Context of transgression	
Legitimacy shock	<p>Code: Strong emotional shift from pride to consternation</p> <p>‘As a company, we had not been in the press with any scandals or crises until that point of time. And we were also a tight-knit community in the sense of: Wow, we are a successful company, 160 years in business. And as a company and an employee of that company experiencing daily negative headlines, daily bashing, utterly leads to as an employee being personally affected. It also went so far that people reported that it in their families this was the main topic, or that friends asked how one could work for such a company and whether one ever knew about that. That they always thought that it was so nice that one was working for Siemens. Thus it was really personal. And a personal crisis for everyone. And I claim that there were extremely many people who had no idea about what was happening and there was a huge disappointment in the former Chairman and the top management (...) With these accusations and emotions it was clear to everyone that profound change must happen’ (Siemens, Senior CO, Nov. 2012).*</p> <p>‘Company management claimed to be “shocked” by the findings and were eager to support investigations.’ (RepRisk, Aug. 08, 2007).</p> <p>‘The psychology changes - people working for decades for the same company are now a facing this new situation’ (Siemens Australia, HR manager, Feb. 2014).</p> <p>‘The scandal and the media behavior surely were the main trigger and also what has influenced the people in the organization the most ... also worldwide. (...) It was a broader system and thus</p>

	<p>the consternation was a significantly higher one. (...) But the consternation, that is really shaken the corporate group as such and that it could also have developed quite differently, this has really permeated towards every single employee' (Siemens, Senior CO, Nov. 2013).*</p> <p>Code: No choice but to radically and instantly react</p> <p>'A crisis helps, and such a scandal helps and we were at the point where we could only change the course or sink. And in this first step I think we have taken the necessary measures that (...) have helped us, to leave this deep valley of scandal and turn towards a success story. (...) Then the process of change started, but not gradually, but this compliance system was implemented under brute force. (...) It was just said do it, implement it, do it and everyone now has to do it. (...) The scandal, we had no chance. We had Public Prosecution Service in the house and as a New York Stock Exchange listed company of course also the SEC, so there was no choice' (Siemens, Senior CO, Nov. 2012).*</p> <p>'No other way' Löscher said back then. (...) If 200 Bavarian officers, police with official cars are standing on Wittelsbacher Platz and finally enter and confiscate everything, even the computer, then this is not a little something' (Siemens FCPA monitor, Oct. 2013).*</p> <p>'The other thing at the back of Siemens' head is, if they get caught again, would it be a blow they can still survive? (...) They don't have a choice' (CSR ASEAN, Manager, Mar. 2014).</p>
External enforcement pressure	<p>Code: Pressure of external FCPA monitor</p> <p>'This situation, the pressure of the monitorship no doubt has led us (...) to being forced to establish a compliance management system. (...) In my judgment however we have also established under the monitorship pressure at some positions a tight net of measures, processes and controls. (...) But overall, against the background of our history, we are ahead compared to many others. So I am not blaming them' (Daimler, Senior CM, Nov. 2012).*</p> <p>'This was a crisis situation. With the end of the monitorship the situation has changed. (...) But we also needed this challenge, the critical point of view' (Daimler, CM, Nov. 2013).*</p> <p>'There was a kind of agreement between the Group Compliance and Louis Freeh and his monitor team to install a local compliance office (...) We have undergone at Daimler a development in the last years facilitated by the monitorship' (Daimler Greater China, CM, Mar. 2014).</p> <p>Code: High scope and intensity of FCPA monitorship</p> <p>'A monitorship is much more intense than usual auditing' (Lawyer, Gibson Dunn, Nov. 2012).*</p> <p>'The monitor gave a lot of suggestions in his first report' (Daimler, Senior CM, Nov. 2012).*</p> <p>'In 2011, the monitor team was 14 days in Australia' (Daimler Australia, CO, Apr. 2014).*</p> <p>'First and foremost, the monitor has made visits also to China. Some of his visits have also led him to the JVs. So they are also aware at that time of their thinking' (Daimler Greater China, CM, Mar. 2014).</p>
MNC legitimacy strategy	
Decoupling	<p>Code: MNC policies not well communicated or enforced</p> <p>'There were formalities and people dealing with compliance of these formalities (...). [I]t was simply lacking awareness for these issue and as a result of that (...) it was also lacking awareness for consequent action when formalities were not met' (Siemens, Senior CO, Nov. 2012).*</p> <p>'In the past, compliance was not sufficiently integrated in our business practices, contrary to the existing internal regulations.' (Siemens, AR, 2009)</p> <p>'Until the year 2008 we did not do that in a quality that we considered and consider as necessary' (Daimler, Senior CM, Nov. 2012).*</p> <p>'Siemens did not know how many accounts it had' (Siemens FCPA monitor, Oct. 2013).*</p> <p>'Before I joined, we had a colleague who covered Greater China from Germany. She travelled to China from time to time' (Daimler Greater China, (Chinese) CM, Mar. 2014).</p> <p>'So we single handedly started for example in Malaysia, it was a one man show' (Siemens ASEAN, Regional CO, Apr. 2014).</p>
Isomorphic adaptation	<p>Code: Compliance with external rules</p> <p>'[The FCPA consultant] came out with a number of improvements which we implemented and which we reported on very regularly - with the Department of Justice and the SEC' (ABB Australia, IO & Regional counsel, May 2013)</p> <p>'Mercedes went to the Government in the States and said, what we request, is rather than fining us this much, fine us this much and let us use this much to change our company. And they put it an FBI judge as their Chief Integrity Officer to give oversight' (TI Malaysia, Apr. 2014).</p> <p>Code: Gradual organizational change</p> <p>'The difference between Siemens and Daimler is that Daimler has not changed its leadership team. Daimler played it differently' (Lawyer, Gibson Dunn, Nov. 2012).*</p> <p>'We proceed step-by-step, so to speak' (Daimler, Senior CM, Nov. 2012).*</p> <p>'The employees first of all shall be informed and then also qualified to deal with this context'</p>

(Daimler, Senior CM, Nov. 2012).*

‘Perhaps in the first year when the monitor started, the feedback did not get back in a harmonized way from all over the world – politically speaking. (...) You cannot change a culture from one day to the other. This takes time.’ (Daimler Australia, CO, Apr. 2014).*

‘It was a constant amelioration of the CMS. (...) At latest with the DPA also the last employee knew the signs of the times’ (Daimler, CM, Nov. 2013).*

‘Mercedes said it took eight to ten years to really fix the company from top to bottom’ (TI Malaysia, Program manager, Apr. 2014).

Code: Orientation towards leading business practices

‘Daimler adopted Siemens’s Business Partner Tool’ (Lawyer, Gibson Dunn, Nov. 2012).*

‘I would say that the first two to three year we were quite ahead. In the meantime we realize that our peers follow (...). The issue controls, the pillar “detect” in many cases is not as developed as in our system, but regarding the “prevent” side I would say that there are comparable systems among our peers’ (Siemens, Senior CO, Nov. 2013).*

‘For ABB during that time (2010), when I was still there, we were in the start or in the process of implementation. (...) On ABB side, they have followed the same track’ (Siemens Philippines, Sales manager (formerly at ABB), Apr. 11, 2014).

Code: Increase the efficiency of new compliance strategy

‘Here the main task insofar has relocated from coping with the acute situation and the need for the establishment of new processes towards the amelioration and sustainable implementation of achievements’ (Daimler, compliance manager, Nov. 2013).*

‘The issue improvement in efficiency was one of the focus topics last year within the compliance organization’ (Siemens, Senior CO, Nov. 2013).*

Moral reasoning

Code: What is right and wrong? ‘What should I do?’

‘The world has changes and that is good. (...) I think it is fair to first inform and enable them (business leaders) to cope with this new context’ (Daimler, Senior CO, Nov. 2012).

(We are not allowed to display the quotes from ABB headquarters.)

Code: What is the ethical role of a MNC?

‘We don’t want to be seen as culturally insensitive, as a European company trying to preach to others’ (ABB Australia, IO Australia & Regional counsel South Asia, May 2013).

Substantial influence

Code: ‘We do more than we have to’

‘One audit department cannot deliver a big coverage for businesses in 190 countries. The control system as such, that we have introduced for our regulations and processes, is the more efficient one in that case I think’ (Siemens, Senior CO, Nov. 2012).*

‘All Siemens payments worldwide are centrally administrated via Munich. This is a voluntary step by Siemens, which cannot be found at most of the competitors. (...) Siemens lately voluntarily reported to the public prosecutor department three persons that were involved in the Kuwait affair. An internal solution, such as dismissal, however would have been sufficient’ (Lawyer, Gibson Dunn, Nov. 2012).*

‘We replicated the required global program throughout the Australian organizations despite the fact that we haven’t had any issues’ (Siemens Australia, Regional CO, Mar. 2013).

‘I am convinced that Siemens is on top of the list. (...) Siemens has done more than what the legislator in America as well as in Germany expects’ (Siemens FCPA monitor, Oct. 2013).*

‘Siemens still is the gold standard in compliance’ (Lawyer, Gibson Dunn, Nov. 2013).*

‘The entire Collective Action Personal as well as the strategy process are not financed through the World Bank or other settlements’ (Siemens, Head of CA, Feb. 2014)*

‘We have developed a full-blown business partner tool, which I think is a very comprehensive tool. I doubt many of these organizations would have such a comprehensive tool’ (Siemens Singapore, Regional CO ASEAN, Apr. 2014).

Code: ‘We want to make sure everybody else does so too’

‘[Siemens is] due to the scandal now surely the company with the most developed compliance system, which also triggers a high eagerness for knowledge among other companies to learn from that and to take over these issues. Not everyone has to invent something new. (...) Under the title “Collective Action” one of our goals is to transport our knowledge and experience towards the outside, make it available to others and build alliances with other market participants, simply to work together on fair competition’ (Siemens, Senior CO, Nov. 2012).*

‘In Collective Action Siemens also is a pioneer. A separate person is responsible for the initiative, which underlines the seriousness of the initiative’ (Lawyer, Gibson Dunn, Nov. 2012).*

‘The Round Table in Switzerland is mainly pushed by Siemens’ (HTW Chur, Jan. 2014)

‘It helps to communicate it and make it public’ (Siemens, CO regional entities, Mar. 2014).*

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